

In the Matter of:)
)
Informational Proceeding and) Docket No.
Preparation of the 2007) 06-IEP-1
Integrated Energy Policy)
Report)
_____)

COMMITTEE MEMBERS PRESENT

Jackalyne Pfannenstiel, Vice Chair
Presiding Member

John Geesman, Commissioner, Associate Member

HEARING OFFICER, ADVISORS

Timothy Tutt, Advisor

Melissa Jones, Advisor

ALSO PRESENT

Steve St. Marie
Representing Commissioner John Bohn, CPUC

STAFF PRESENT

Lorraine White

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P R O C E E D I N G S

9:10 a.m.

VICE CHAIR PFANNENSTIEL: Good morning.

This is the scoping hearing for the 2007 Integrated Energy Policy Report. I am Commissioner Jackie Pfannenstiel, and to my right is Commissioner John Geesman. We will be the IEPR Committee for this cycle of the report.

To my left is my advisor, Tim Tutt, and next to Tim is Steve St. Marie, who is the Advisor to Commissioner John Bohn of the Public Utilities Commissioner. Commissioner Bohn will be joining us as a collaborative invited guest, I guess we would say, in this scope -- in the entire 2007 proceeding.

To Commissioner Geesman's right is his Advisor, Melissa Jones.

This is an opportunity for us to think about the entire 2007 proceeding. We're beginning in 2006 with both an update of the 2005 IEPR and, as we are able to do in even numbered year, to identify issues that are, that were perhaps raised or, or implied in the 2005 IEPR, but also ones that we believe need to be addressed more, more fully through the 2007 process.

1 So today we're going to be talking about
2 the issues, talking about the process, and
3 primarily hearing from the interested parties. So
4 we welcome your participation.

5 Opening comments, Commissioner Geesman?
6 No. Then I'll turn it over to Lorraine.

7 PROJECT MANAGER WHITE: Again, my name
8 is Lorraine White. I'm the Project Manager for
9 this cycle's Integrated Energy Policy Report
10 proceeding, and I look forward to seeing a lot of
11 you in the months ahead, as we go through this
12 process and help the state address some of the
13 most critical issues that it's facing related to
14 energy.

15 For those who are participating outside
16 of this Commission hearing room, we have the call-
17 in number, and then also, to assist you as we go
18 through this discussion, we are Webcasting this
19 hearing. That Webcast can be found at our Energy
20 Commission Website. The url is presented there.
21 And for those who are on the Webcast only, if you
22 did want to call in there will be an opportunity
23 for public comment, including those on the phone,
24 towards the end of the, the hearing.

25 Just to briefly go over the agenda for

1 all folks. I'm going to go ahead and cover in
2 general terms an overview of the Integrated Energy
3 Policy Report proceedings, what our basic
4 requirements are, and what the 2007 Integrated
5 Energy Policy Report Committee's proposed scope
6 will entail, as well as the, not only the, the
7 long-term items, but then the short-term items
8 that we'll be covering in our 2006 review.

9 Afterwards, we're going to ask to
10 receive your comments and to have a, a dialogue.
11 Some have already informed me that they would like
12 to speak, and so I've identified those
13 stakeholders, but then we'll also open up the
14 discussions for general comments for those of you
15 who would also like to address issues before the
16 Committee.

17 The Energy Commission is tasked under
18 Senate Bill 1389 and in our statutes to every two
19 years evaluate and assess and forecast the state's
20 energy supplies, demands, and prices. This is to
21 affect all aspects of the energy industry and
22 those that participated and the users in, in the
23 state of those resources.

24 In the evaluation and assessment and
25 forecast of these resources, the demands and the

1 price, we're tasked with also identifying the most
2 critical and pressing issues that are facing the
3 state and developing energy policies that will
4 allow us to conserve those resources, protect the
5 environment, ensure energy reliability,
6 deliverability, serviceability, enhance the
7 state's economy while protecting public health and
8 safety as well as the environment.

9 As part of this process, we engage
10 members of the public, stakeholders, we consult
11 with state, federal and, and local agencies, and
12 we ask that you participate, bring your
13 information into our proceeding and expand our
14 knowledge, and then assist us in crafting the
15 appropriate policies that we'll need to
16 promulgate. And as I said earlier, we're asked to
17 do this every two years, on the odd years.

18 In this particular proceeding, our focus
19 has been, as we stated in the appendix for the,
20 the notice calling for this hearing, that we would
21 like to diversify our energy portfolio even more
22 to provide for greater reliability, price
23 protection, environmental improvement, not only
24 for the electricity and natural gas sectors but
25 also for the transportation sector.

1 And specifically here I've called out
2 the electricity and natural gas sectors because in
3 the, in the notice we, we called out ensuring that
4 we are implementing the loading order; that we
5 incorporate our policies and we print also the
6 loading order into the long-term procurement
7 proceedings; that we continue to address adequate
8 system integration of these resources to ensure
9 reliability and deliverability of the resources;
10 and that we identify the needed mechanisms to
11 achieve the stated goals that we have been
12 identifying and, and recommending for the last
13 several years.

14 The same sorts of things apply to
15 transportation, but as I'll discuss even further
16 in, in my chat here, the state has been tasked
17 specifically to look at particular alternative
18 fuels and identify how we may be able to bring
19 those into the marketplace and have them provide
20 needed services for state residents and companies
21 and the economy.

22 One of the fundamental requirements of
23 the Integrated Energy Policy Report proceeding is
24 to evaluate the environmental performance report
25 of the energy sector and identify ways in which we

1 can improve the environmental performance of the
2 system itself and its, the use of the resources.

3 In this particular proceeding we're
4 going to be building on our previous work related
5 to climate change and air quality issues as a way
6 of trying to address a, a variety of, of
7 consequences associated with energy production and
8 use. Identify those types of mechanisms and
9 strategies that can actually protect the resources
10 that we have, and hopefully improve them, as well,
11 as well as looking at opportunities to invest our
12 dollars into meaningful and effective research and
13 development.

14 In addition to the overall IEPR
15 requirements, the legislation also directs the
16 Commission, as appropriate, to do an energy policy
17 review, and these would be done every two years in
18 the even years. The review can relate to an
19 update of information in the preceding year's
20 Integrated Energy Policy Report recommendations,
21 or it can be an opportunity to raise new issues
22 and to scope out what those issues might be. The
23 Committee has identified four particular topic
24 areas that fall within these two categories as
25 part of our 2006 review.

1 The first is to address issues related
2 to the renewables portfolio standards; to address
3 issues related to load management; to summarize
4 the findings in the AB 1007 report regarding the
5 alternative transportation fuels plan; and to look
6 at smart growth and smart community issues.

7 In terms of the RPS issues, we are going
8 to be yet again looking at the progress to date on
9 process changes that can improve the RPS
10 objectives and ensure that we are effectively
11 reducing the complexity in the process, increasing
12 the transparency, and streamlining the compliance
13 requirements. In this way, we're hoping that
14 we're much more capable of procuring renewables
15 more quickly and efficiently and bringing them to
16 bear within the stated goal time periods.

17 Part of this will ensure, will mean that
18 we have to address the infrastructure issues and
19 ensure strategies that will allow us to more fully
20 integrate the renewable resources within the
21 system. And then, of course, there is issues of
22 financing and funding for renewables that allow
23 them to be cost competitive. As part of this
24 we'll also look at what it's going to take to
25 actually implement these strategies, and that may

1 include regulatory and legislative changes.

2 The second issue we're going to be
3 looking at is load management. Oh, and, and
4 before I forget, Heather Raitt is going to be
5 leading the Energy Commission's staff's efforts on
6 the RPS proceeding, and she's right here if anyone
7 would like to meet her. And Mike Messenger is
8 going to be leading staff's efforts on the load
9 management review.

10 In terms of this, we're going to be
11 looking at the status of the demand response
12 implementation and what, what the strategies are,
13 how effective they are, and what types of things
14 may be done to better improve the load management
15 objectives of the state. As part of this, we'll
16 also look at the possibility of implementing load
17 management standards. The state already had load
18 management standards, so we will be considering
19 the options associated with adopting new ones or
20 modifying the existing ones that we have.

21 The AB 1007 report is specified in
22 legislation that was adopted last year. We're
23 specifically tasked with developing a Alternate
24 Transportation Fuels Plan based on a series of
25 criteria that are established within a full fuel

1 cycle analysis. This is focused primarily on
2 emissions, air emissions, but also will consider
3 water quality issues and, and other issues related
4 to the environmental consequences of the use of
5 different fuels as we're, we go forward in this
6 analysis.

7 We're specifically tasked with taking
8 information about the current status of the market
9 for transportation fuels, the technological
10 capabilities of new fuels, the environmental
11 characteristics of these fuels, and identifying
12 for specific years what, what goals the state
13 should be pursuing for the penetration of
14 alternative fuels in the transportation sector.
15 And in order to achieve those goals, identifying
16 effective policies, regulations and market
17 strategies that can be implemented over the next
18 few years.

19 In this particular IEPR review for 2006,
20 we'll provide a summary of that report. The AB
21 1007 report will actually be coming out and
22 completed by December, so a summary in advance of
23 the final report will be provided in the 2006
24 review.

25 The fourth topic area is related to

1 transportation, it's related to a lot of things,
2 actually. It's smart growth and smart
3 communities. It's not a new concept or a new
4 topic, but we haven't actually talked about it for
5 a while. And it is a nexus in which we can take
6 land use decisions and better understand their
7 consequence to energy and the energy sector. And
8 the opportunities within these smart growth and
9 smart community strategies for identifying
10 opportunities to implement distributed renewable
11 generation, and also improve the efficiency of
12 the, of communities as it relates to energy.

13 As part of this, we'll be taking a look
14 at the existing body of work and providing an
15 update on, on what is known about that, and
16 working closely with the Office of Planning and
17 Research.

18 I hope folks have the notice. I
19 actually copied this out of the notice, it might
20 be a little hard for some to see. But I wanted to
21 just briefly cover the proposed schedule. And as
22 I'm saying, this meeting is about discussing
23 what's being proposed for purposes of refining it
24 in a final scoping order, including our schedule,
25 and some of the products that we've identified

1 here.

2 Today is the kick-off meeting, trying to
3 get your input and ideas about what the, the
4 Commissioners here should be considering as part
5 of the Integrated Energy Policy Report proceeding.
6 And over the several, the next couple of months
7 doing the analysis and holding public workshops on
8 what those topics are and how we can be addressing
9 them, with the objective of, by the end of
10 November 2006, adopting our 2006 update/review.

11 All the while that we're working on the, the
12 review topics, we will also be initiating work on
13 the over-arching 2007 Integrated Energy Policy
14 Report requirements, including our update of the
15 supply/demand and price forecasts, trying to
16 identify issues within those in the deliverability
17 of energy in the state, and so as part of this
18 discussion today we would like also not your, not
19 just your comments on the short-term issues and
20 topics, but the topics that we should be looking
21 at over the next 18 months, as well.

22 Ultimately, the Commission is tasked
23 with adopting the final 2007 Integrated Energy
24 Policy Report in November of 2007. So over the
25 next 18 months we should have quite a bit of fun.

1 And just to remind folks of the call-in
2 number and the Webcast address.

3 I'd like to open it up at this point for
4 questions on what I've, I've discussed so far, and
5 in particular why we have Mike Messenger here and,
6 and Heather Raitt, if there are particular
7 comments that people would like to make or
8 questions they'd like to ask, I ask that you come
9 to the podium here in the front, make sure the
10 little green light's on, and if there is anyone
11 who would like to come forward.

12 Okay. Well, if that's the case, then
13 we'll go ahead and get started, if the
14 Commissioners are all right, with --

15 VICE CHAIR PFANNENSTIEL: Sure.

16 PROJECT MANAGER WHITE: -- the rest of
17 the agenda. And I think now, really, is just a,
18 an opportunity for others to come forward and, and
19 describe what you would like to see in the
20 scoping, in the scope of the 2007 IEPR.

21 I have a couple of blue cards. Besides
22 the people on the agenda already, I have a couple
23 of blue cards from people who have indicated
24 they'd like to speak, so if you want to fill some
25 out, I, I think there are some in the back. But

1 why don't we start with Joe Sparano. Is Joe -- I
2 didn't see him here yet.

3 Okay. Let's go to Gary Schoonyan, who I
4 think is speaking instead of Manuel Alvarez, from
5 Southern California Edison.

6 MR. SCHOONYAN: Operating error right to
7 start with, that's, that's not a good sign.

8 My name is Gary Schoonyan, I represent
9 the Southern California Edison Company, and I
10 wanted to kind of preface my comments, which will
11 hopefully be brief, with the fact that we
12 appreciate the opportunity to come before you and,
13 and look forward this iteration to work closely
14 with you as, as we develop energy policies going
15 forward.

16 We've reviewed the draft schedule and
17 scope and, as it indicates, you're looking at both
18 short-term and long-term issues. Both are, are
19 very important. However, from our perspective,
20 the primary focus of, of the effort probably
21 should be on the longer term issues. This is
22 pretty much exemplified in the statute that
23 created the IEPR that, that talks about major
24 trends and issues facing the state.

25 A cornerstone of this effort going

1 forward, from our perspective, is the need for all
2 participants, all LSEs, all generators, to be
3 treated the same throughout the process, same with
4 regards to submitting information to the
5 Commission, the same with regards to how that
6 information is conveyed outside the Commission.

7 With regards to the 2007 scope, the
8 items that Lorraine had talked about, I'm going to
9 just briefly discuss a couple. One had to do with
10 the loading order, and I am not going to chastise
11 or complain about the loading order. It's been a
12 very beneficial and is a very beneficial effort
13 going forward. However, what we are a little bit
14 concerned about is the prescriptive nature of, of
15 more and more things being prescribed and there's
16 fewer and fewer options.

17 I think we're all aware that within the
18 state of California there's no new nuclear, no new
19 coal, no new large hydro. We do all the energy
20 efficiency demand response for, we do renewables.
21 Those are all very important things, and we're not
22 suggesting that, that there be some retreat from
23 some of those things. However, from our
24 perspective, there needs to be a focus on
25 developing and expanding options, different types

1 of approaches moving forward, rather than
2 contracting and restricting those that, that
3 currently exist.

4 There is also an indication with regards
5 to the integration of generation and transmission
6 system planning. And although this isn't a --
7 well, I'll, just from personal experience.
8 Having, having tried to do this for five years in
9 an integrated environment when I was Chief
10 Planning Engineer at Edison, it is a very
11 difficult process, and that was in a fully
12 integrated environment. When you layer on the
13 competitive nature of the, of the systems that
14 exist today, it is going to be extremely
15 difficult.

16 That's not to say something shouldn't be
17 pursued along these lines, but it's our hope that,
18 that what comes out of this is a better
19 understanding of the attributes and
20 characteristics of those types of facilities and
21 some of the subjective trade-offs that, that could
22 be made, as opposed to any attempt which I, I'm
23 going to say will most likely be unsuccessful, any
24 attempt to develop some, some grandiose model or
25 something in order to actually do detailed

1 prescribed assessments of this. So, a caution
2 there.

3 I mentioned long-term issues, and a
4 couple of things percolate up that I would like to
5 at least suggest be, be considered as part of the
6 2007 IEPR. One has to do, and it gets back to
7 this expanding options. There ought to be some
8 consideration, I think, at some point to the use
9 of clean coal in California, as opposed to -- and,
10 and I'm not saying that there's an outright
11 restriction of it in the laws but pretty much at
12 this point it's something that, that really isn't
13 considered. There needs to be some recognition of
14 clean coal in California.

15 Along the, the lines of, of climate
16 change, which is an issue here, there are a couple
17 of things, observations and considerations that
18 the Commission at some point, and the state at
19 some point, from our perspective, need to address.
20 One, and, and this is being addressed to a certain
21 extent, is to continue the aggressive development
22 of technologies which will support a clean energy
23 future, as opposed to just purely mitigation
24 approaches, we need to be aggressively pursuing
25 various technologies that cannot, will not only be

1 used within the state but outside the state.

2 As we're all aware, climate change is a
3 global issue, and realizing that is the second
4 consideration that, at least from our perspective,
5 needs to be thought about at some point in time.
6 And that is adaptation associated with climate
7 change. All of the focus to date has been on
8 mitigating the creation of greenhouse gases. The
9 fact of the matter is I think we're all aware of
10 what's going on on a global basis with regards to
11 the expanding economies of, of a number of large
12 nations.

13 The fact of the matter is there, in all
14 likelihood there will be some increase in
15 temperatures that we're going to have to contend
16 with, and one of the big issues facing the state
17 is that 70 percent of our water needs that are
18 served by snow pack and the orderly run-off of
19 snow pack, there will likely be, and from what
20 I've read in the, the climate action team,
21 significant reductions in the amount of snow pack
22 with just minor increases in temperature, as well
23 as higher levels of run-off in a more uncontrolled
24 fashion.

25 The Water Action Plan, which I commend

1 the Commissions for, for looking at, is a very
2 important element, but at least my understanding
3 of it, it just focused on conveyance and
4 consumption. It did not address the issue of
5 water storage or, or what you're going to do with
6 regards to the fact that if, what happens if 50
7 percent of the snow pack goes away, where is this
8 state going to get the water to support, you know,
9 our growing economy both from an agricultural as
10 well as a business perspective.

11 And along those lines -- well, I'll just
12 conclude with that. I, I don't have any real
13 suggestions associated with that other than the
14 fact that someone needs to start looking at that,
15 because that is probably one of the biggest issues
16 going forward over the long haul.

17 With regards to the 2006 update, there
18 were four issues addressed. I'm only going to
19 address two or three of them. One had to do with
20 the renewables. There were a number of issues
21 that Lorraine highlighted that you want to focus
22 on. However, from, from our perspective, one of
23 the key drivers, or some of the key drivers
24 associated with renewables has been in the area of
25 transmission and, and the need to move forward in

1 a, in an orderly fashion with transmission
2 development to support the, the development of new
3 renewables.

4 We've done that trunk line proposal,
5 we've basically taken over the, the planning and
6 environmental studies associated with these
7 projects even before there were contracts in
8 place, which is a deviation from the way FERC and
9 other things were going on. One of the things
10 we're looking at is, is contemplating doing a, a
11 request for information in the near future to try
12 and get a better feel for the next Tehachapi
13 that's out there. Where is there really economic
14 potential associated with new renewables, and
15 start thinking about developing the infrastructure
16 necessary to meet those things.

17 There also needs to be lessons learned,
18 and I think that's one of the things that you're
19 looking at, or will be looking at, from, from
20 what's gone on to date. However, much of the
21 problems associated with the delays have been a
22 result of the very complex nature of the
23 arrangements and the proposals put forth. There
24 is no, for instance, pro forma standard off the
25 shelf type of project, at least of a major scale.

1 They all have nuances, they all have special
2 characteristics, and you need to work through
3 those. And we're hoping to, to basically try and,
4 and do that through a lessons learned process.

5 Some of the things, too, to make the,
6 the burden a little less on the part of the
7 developers, is maybe assume the scheduling
8 coordinator responsibilities associated with them,
9 to the extent that they want to do that. I think
10 the, look -- re-look at the performance
11 assurances, and commend the Commission for, for
12 wanting to take a look at that I think at the end
13 of June with regards to, I think it was credit and
14 some of those sorts of things.

15 But these, these are the sorts of
16 things, and transmission is the key at this point
17 as it relates to renewables, and that's one of the
18 things that needs to be focused on.

19 With regards to load management. There
20 has been a push, and it was a presentation at the
21 Energy Action Plan meeting to, to go to critical
22 peaks, peak pricing. One of the, one of the
23 concerns we have there, at least from our
24 perspective at this point in time, none of the
25 customers want that. And so that may be difficult

1 to move forward in that direction. Likewise, the
2 metering and the communication infrastructures
3 necessary to support that aren't going to be
4 around for, for a period of time, although there
5 are plans to, to develop those by the end of this
6 decade.

7 And a third thing, though, that, that
8 comes into play, and I'm not, I'm not an expert on
9 the ISO's MRTU process by any stretch of the
10 imagination, but it's my understanding that they
11 don't have the ability at this point in time in
12 their design to incorporate demand response, other
13 than very large pumping, pump loads. So there
14 needs to be some reconciliation there, or at least
15 some understanding there before we move forward
16 aggressively on that.

17 The final is the smart growth, and I
18 appreciate the, the explanation of that. I, I
19 wasn't exactly sure what, what that entailed.
20 Just to bring you up to speed, we have entered
21 into an arrangement with Palm Desert whereby
22 working with them in partnership, and they're,
23 they're a large, a large load, seven, 800 gigawatt
24 hours a year of, of load, pretty significant. But
25 we're working with them basically to reduce their

1 energy consumption and their energy demand by,
2 each by 30 percent over the next five years.

3 And that brings to the next thing, the
4 final closing thought with regards to smart
5 growth, and that is the concept which I will refer
6 to as energy productivity. We all, the focus
7 tends to be on how to reduce consumption or shift
8 consumption, and what have you, which is all very
9 important. But one of the things is, is in an
10 energy productive environment, there's, we
11 shouldn't look at demand side energy efficiency,
12 DG, very smart grid types of things, all in
13 isolation, all in silos. We need to have,
14 basically they need to be looked at together, and
15 hopefully that's one of the things that the smart
16 growth approach does, look at them together to
17 basically provide a very efficient but very
18 productive way of moving forward in handling new
19 growth.

20 I thank you.

21 VICE CHAIR PFANNENSTIEL: Thank you,
22 Gary.

23 COMMISSIONER GEESMAN: Gary, I wanted to
24 give you a heads up as to one of the major areas
25 that I think we'll probably be pushing forward in

1 in the 2007 process that I think will get into
2 the, the data that you have and some of the
3 methodologies you use, and that is your various
4 value at risk models and least cost/best fit
5 methodology.

6 In last year's cycle, both NRDC and the
7 Union of Concerned Scientists criticized the
8 limited nature of the Commission's Integrated
9 Resource Planning effort for not having adequately
10 developed scenarios of different fuel types for
11 the electrical sector. And in the '05 report, we
12 did pledge to do that in the next cycle. I want
13 to be very clear that that is likely to entail a
14 great deal of exchange between the Commission,
15 your company, and the other LSEs. I know we're
16 likely to venture into the areas that we seem to
17 disagree on in terms of confidentiality, but I'd
18 encourage your company to give some thought as to
19 how we best exchange that information and those
20 computer models and those methodologies to have a
21 productive and hopefully public process in the '07
22 cycle.

23 MR. SCHOONYAN: Thank you. And as I had
24 mentioned at the beginning, we hope that any sort
25 of process like that includes all LSEs, all

1 generators and what have you, and not just the,
2 the large IOUs.

3 COMMISSIONER GEESMAN: I think we heard
4 you.

5 MR. SCHOONYAN: Thank you.

6 VICE CHAIR PFANNENSTIEL: I think now
7 Joe Sparano, from Western States Petroleum
8 Association.

9 MR. SPARANO: I have some things I'd
10 like to give to the members of the Commission and
11 the panel, and if I can do that, then I will be
12 shorter in my comments, which probably will make
13 everyone happy.

14 Good morning, Commissioners, staff.
15 Lorraine, I'm sorry I missed your presentation,
16 I'm sure it was a good one. And I, I'm surprised
17 that I was showed as a, my name showed as a
18 presentation. If I had been aware of that, which
19 is my fault, I would have brought the presentation
20 I made yesterday at the Haagen-Smit Symposium,
21 because it speaks to all these issues. So if the,
22 with the permission of the Commission, I think
23 maybe I'll send it as an attachment, because it
24 really does cover a lot of the ground that I'll
25 speak briefly about today.

1 My name is Joe Sparano, I'm President of
2 the Western States Petroleum Association. For the
3 record, we have 26 members that explore for,
4 produce, refine, transport and market petroleum,
5 petroleum products, natural gas in California and
6 five other western states.

7 We believe that the governor articulated
8 a very clear vision for California's energy future
9 in his August 2005 letter to the legislature. He
10 indicated three primary energy initiatives in that
11 letter. They included, because they're worth
12 mentioning, providing adequate and reliable energy
13 supplies when and where needed; affordable energy
14 to households and business, businesses; and
15 advanced energy technologies that protect and
16 improve economic and environmental conditions. To
17 that end, WSPA believes that the 2007 IEPR and all
18 energy-related laws and regulations should be
19 measured against these policy objectives.

20 We sent a letter to the docket on May
21 8th, and as noted in that letter we think that
22 your previous efforts in 2003 and 2005 have done
23 an excellent job dealing with the natural gas and
24 electricity elements of the plan, and I think
25 we've demonstrated how many times, John, 40 or 50,

1 perhaps, before this group in our testimony that
2 we support your recommendations that are contained
3 in those reports. However, we've expressed, and
4 we still feel strongly about the approach taken
5 toward transportation fuels.

6 Specifically, we have some concerns in
7 those areas that either address or don't address
8 the very real and urgent supply and demand
9 imbalance we face in California. We are mostly
10 concerned about the basic objective that I believe
11 has been contained in both the 2003 and 2005 IEPRs
12 that California should reduce petroleum demand by
13 some fiat, and eliminate products that are meeting
14 all the performance and cleanliness requirements
15 that California has. I know that's a pretty basic
16 and fundamental disagreement between us, but that
17 still is an important element of what we want to
18 share with the group today.

19 We did identify a number of current and
20 proposed laws and regulations that we think could
21 have negative impacts on the state's economy, and
22 we hope you will address those in your 2007 IEPR.
23 They include new gasoline taxes, greenhouse gas
24 reductions that may affect California businesses
25 only. I say that carefully. There's certainly a

1 buy-in from our members that greenhouse gas
2 emissions need attention and need to be worked.
3 We have expressed and continue to express our
4 concern that they not be focused just on
5 California businesses to the detriment of our
6 economy.

7 Petroleum demand reduction, I could say
8 a lot. I won't. I think you know how I feel
9 about that and how our members feel. And the
10 issue of mandates, bio-fuels in particular, and
11 whether or not that is the right approach to both
12 economic and environmental success here in
13 California.

14 We think that mandates that ignore the
15 market and the genuine needs and expectations of
16 consumers can end up being hidden taxes, and I, I
17 urge the Commission to give, continue to give
18 thoughtful consideration to that issue.

19 On the positive side, we do believe that
20 there are some constructive steps that you can
21 take in this version of the IEPR. They include
22 ensuring that we can maintain and expand supplies
23 of clean petroleum base products while adding
24 alternative and renewable fuels. I think you know
25 already, but I, I hope they're worth repeating, we

1 have some basic primary objectives when we say
2 that, and that is add alternative or renewable
3 fuels that are scientifically sound, that are
4 technically feasible and cost effective, and that
5 don't require mandates and subsidies to bring them
6 to market.

7 The efforts you have made to try to
8 streamline the permit system in California are,
9 have been excellent, and I hope we can continue
10 working together to try and pressure something
11 through the legislature that will represent a real
12 and lasting reform in that area.

13 Eliminating barriers to in-state oil and
14 natural gas production. It's very difficult to
15 have people line up to add more money to the
16 production of the resources that currently fuel
17 the state if there is an element of the state's
18 official plan that says we want to get rid of the
19 products made from those resources. We just don't
20 think that's consistent. We believe LNG terminals
21 and the ability to reheat LNG into natural gas
22 will be an important part of California's future
23 and should be examined and supported in your
24 report. We encourage expansion of petroleum
25 infrastructure, and anything you can do to

1 continue your efforts to focus on that area is an
2 important one.

3 And finally, encouraging clean fuels
4 that may not be the alternative and renewable
5 fuels that we all would like to add to the
6 portfolio, but things like ultra-low sulfur
7 diesel, which will bring diesel sulfur down to 15
8 parts per million by June 1st of this year at
9 refineries and in the California marketplace by
10 September 1st. So there are some good things
11 going on with conventional fuels and engine
12 technology that I hope you will acknowledge in
13 your report.

14 In closing, let me cover three things.
15 I want to commend you for the efforts you've made.
16 I know how much hard work has gone into this, and
17 even in areas where we don't agree we respect the
18 fact that you have made a tremendous effort to try
19 and help move California to a better place on
20 energy supply.

21 We're still very concerned about the
22 unintended consequences of what is being proposed
23 in the area of petroleum-based fuels reduction.
24 We think that the IEPR should instead be sending
25 positive signals to our members and the other

1 folks who want to invest in what I might call more
2 conventional fuels and facilities even while they
3 put money into alternative or renewable fuels. I
4 think you're aware from previous testimony that
5 our members alone have spent millions of dollars
6 on alternative or renewable fuels and all of the
7 areas that we all have followed in wind and solar
8 and hydrogen power, and upgraded battery
9 performance. The members voluntarily and for good
10 business reasons continue to put money there.

11 So I'm hopeful all of that can be
12 considered, and I'm grateful for having the
13 opportunity to mention those things before you
14 today.

15 VICE CHAIR PFANNENSTIEL: Thank you,
16 Joe.

17 John.

18 COMMISSIONER GEESMAN: I don't think
19 we've made the, the progress that we had hoped in
20 better understanding the permit process when we
21 zeroed in on this question three years ago. And
22 as you know, the work that we've set out for
23 ourselves this year has been trying to, to develop
24 a better understanding of best practices in the
25 local permitting regime. We've been a little slow

1 on that because of some retirements and, and staff
2 vacancies. But hopefully we'll, we'll pick up the
3 pace on that and have something to show for it in
4 this cycle.

5 You touched briefly in your, your
6 written remarks on taxes, and I, I heard your
7 familiar phrase, hidden taxes, in your verbal
8 remarks.

9 MR. SPARANO: You're not going to accuse
10 me, like Commissioner Boyd does, of being
11 boring --

12 COMMISSIONER GEESMAN: No.

13 MR. SPARANO: -- in the extreme.

14 COMMISSIONER GEESMAN: Not from me.

15 MR. SPARANO: Thank you.

16 COMMISSIONER GEESMAN: As I know you're
17 aware, there is a ballot measure being circulated
18 now for signatures that would levy a tax on your
19 industry. And the Energy Commission I think has
20 maintained a, a pretty fastidious record of not
21 being drawn into taking positions on ballot
22 measures. But it occurs to me that, that we do
23 perform a pretty important information gathering
24 function, and I wonder if you think that it would
25 be productive for us, should that ballot measure

1 qualify, to hold an informational hearing trying
2 to get at what the real numbers involved are, who
3 would actually pay such a tax, and what the
4 consequences might be.

5 MR. SPARANO: I think all of those areas
6 that you have just mentioned are more than a
7 little worthy of further examination and
8 investigation. And should the measure qualify, I
9 know that there will be considerable concern
10 within our industry and that we will be trying to
11 bring to the table those areas and elements that
12 you mentioned. So yes, I think it would be an
13 excellent idea.

14 COMMISSIONER GEESMAN: And your
15 organization would participate in that type of
16 public proceeding?

17 MR. SPARANO: The companies and the
18 opposition group would probably take the lead more
19 on that, Commissioner, but we, we do feel strongly
20 that that type of approach to generating funds to
21 support winners or losers and doing so by taxing
22 resources at the wellhead, which are already well
23 taxed, one of the pieces of misinformation that
24 circulates is that we don't have a severance tax
25 in California. In fact, we pay a nickel a barrel

1 to fund DOGGR, the Department of Oil, Gas and
2 Geothermal Resources, and when you add in the, the
3 taxes and property taxes that are paid not only on
4 the land from which mineral resources are
5 extracted, but the mineral resources themselves,
6 California is right in the middle of the pack,
7 toward the higher end of states that pay
8 significant severance or other taxes on resources
9 that are extracted from underneath its soil.

10 So to add more to that will simply do
11 what other previous taxes have done, as we saw in
12 the eighties very clearly, when an industry is
13 over-taxed or excessively taxed, the ability to
14 invest and the production that comes from that
15 investment is reduced in America's case six
16 percent, and the fact that that could occur would
17 once again propel more and more imports. They
18 increased 16 percent in the period from 1980 to
19 1988, when there was a tax placed solely on the
20 petroleum industry, and we are already at 63
21 percent imports every single day.

22 And I know the Energy Commission is
23 deeply concerned about energy security and
24 dependence on foreign sources of energy, and I
25 think that is counter the, the ballot initiative

1 runs counter to the prospective view as -- have
2 expressed already in previous IEPRs about those,
3 those issues.

4 COMMISSIONER GEESMAN: Thank you very
5 much. I think it might be useful if, if we did
6 perform that kind of function. It sounds like Mr.
7 Sparano and probably others will have a lot to
8 contribute to it.

9 Thanks, Joe.

10 MR. SPARANO: Thank you.

11 VICE CHAIR PFANNENSTIEL: The next
12 speaker listed is Mike Florio, with TURN.

13 MR. FLORIO: Thank you, Commissioners.
14 It's a pleasure to be here today. Mike Florio,
15 Senior Attorney for TURN, The Utility Reform
16 Network.

17 I guess I'd like to take the perspective
18 of, of lessons learned on the 2005 round of the
19 IEPR and look ahead to what we might do
20 differently for 2007. I think one of the areas
21 that, that stands out for us in the, in the
22 electric supply and demand analysis is that -- and
23 there were many reasons for this, but I think the
24 Commission's report that it transmitted to the PUC
25 focused on contractual need for electricity. And

1 we believe it would be more useful both for this
2 Commission and for the CPUC to focus the next time
3 around on physical need, to look really at what,
4 what generation sources are out there, what the
5 demand is likely to be, and what, what additional
6 physical supply is needed.

7 The, the problem with focusing on
8 contractual need is that changes quickly. You
9 know, contracts expire, new contracts are entered
10 into, and very quickly any data that you assemble
11 becomes outdated and is, is simply not that useful
12 to a PUC process that doesn't reach a decision
13 until as much as 18 months after you collect the
14 data.

15 So we would really encourage a focus on,
16 you know, how much generation do we have and how
17 much more do we need, and that, you know,
18 inevitably will get into the aging plants issue
19 that you've looked at in the past, and I think a
20 question that we need to look at in that context
21 is, you know, the cost effectiveness of replacing
22 aging plants. In some instances, you know, it may
23 be extremely cost effective from a, a long-term
24 perspective to shut down old plants and replace
25 them with new modern technology, you know, if

1 those plants are ones that are operating for a
2 significant number of hours per year.

3 On the other hand, if a plant is only
4 running for a few hundred hours it, it may not
5 make sense to have an expedited plan to replace
6 that, because it will simply take too long to, to
7 recover the cost of doing that. So we think a
8 focus on physical need and on the cost
9 effectiveness of aging plants and their potential
10 replacement would be a, a very useful focus for
11 the next go-around.

12 I think another area that we would like
13 to see the Commission focus on is the high cost of
14 electricity in California and really look in a
15 serious way at what can be done to reduce rates.
16 You know, sitting here today, you know, five years
17 after the energy crisis, our electric rates are
18 still 35 to 40 percent higher than they were prior
19 to the crisis, prior to electricity restructuring.
20 I think there was a hope and expectation during
21 the crisis that at some point we'd work off those,
22 those very high costs and, and see a reduction.
23 And, you know, we saw a brief set of reductions
24 after the utilities paid off some of their past
25 debts, but at this point rates are going up again,

1 and we see a lot of initiatives that are adding
2 cost and very little being done in the area of
3 reducing cost. So we would like to see some
4 attention paid to what can be done to, to lower
5 rates and electricity costs in California.

6 As far as the 2006 update is concerned,
7 on the RPS I think one thing that this Commission
8 very clearly is in a position to do is to ensure
9 that there is a timely and predictable process in
10 place for issuing supplemental energy payments to
11 contracts that are approved by the CPUC. There is
12 a great deal of consternation at present about the
13 availability of SEPS and how predictable and
14 timely the process will be to get those issued, so
15 we would urge you to give that issue your fullest
16 attention.

17 SEPS are particularly important for the
18 emerging technologies and, you know, more
19 innovative and diverse resources that may
20 participate in the RPS. And absent a, a timely
21 and predictable process for getting SEPS, we're
22 more likely to see contracting for the more
23 conventional renewable technologies and not the,
24 the branching out into newer and innovative
25 technologies.

1 And finally, on load management, I would
2 just like to echo something that Mr. Schoonyan
3 said, that as far as critical peak pricing is
4 concerned, customers just don't want it. That's
5 certainly true of the customers that we represent,
6 but we've seen it very forcefully expressed by the
7 large customers who've already had, you know,
8 meters installed at, at taxpayer expense. There's
9 great resistance to, to that type of approach to
10 load management, and we, we would encourage a, a
11 continued and reinvigorated focus on, on load
12 management programs such as air conditioner
13 cycling, which has a proven track record of, of
14 success and yet is, is not being universally
15 pursued across the state with very much vigor.

16 And that's basically our suggestions
17 with the focus on electricity for what we'd like
18 to see in the 2007 IEPR, and the 2006 update.
19 Thank you.

20 VICE CHAIR PFANNENSTIEL: Questions.
21 John.

22 COMMISSIONER GEESMAN: Mike, I want to
23 focus a bit on the rate reduction question. And
24 it's been a, a source of frustration for us and I
25 think in large part underlie our emphasis on, on

1 the desirability of replacing much of the aging
2 fleet.

3 We did, or staff did an analysis in the
4 '03 cycle that showed for a new combined cycle
5 natural gas plant, that about 70 percent of the
6 life cycle cost with gas in the \$3 range was
7 attributable to fuel cost. We updated that last
8 year, and determined I think, if my numbers are
9 correct, that at about \$9 gas, which was the price
10 at the time, about 90 percent life cycle cost of a
11 new combined cycle would be fuel.

12 You look at the existing fleet and
13 you've got heat rates that are probably at least
14 40 percent, if not more, worse than a new combined
15 cycle natural gas plant, and yet the financial
16 accounting system that the utilities rely upon to
17 report to their shareholders, the regulatory
18 system passes those fuel costs through. I'm not
19 suggesting that I have a better alternative to
20 passing those fuel costs through, but we all get
21 into a stuff happens mind set that is relatively
22 indifferent to the efficiency, or lack thereof,
23 with which we burn natural gas to generate
24 electricity.

25 And I wonder if you have any, any

1 thoughts as to how in, in this cycle we might
2 better get at ways that our regulatory system can
3 approach that problem.

4 MR. FLORIO: I, I really think it, it
5 comes down to fairly careful cost effectiveness
6 analysis, and we certainly are not indifferent to
7 fuel costs, although, you know, I would, I would
8 agree that they tend not to take up a lot of
9 people's time simply because in the short run
10 there's not much you can do about it. There,
11 there is a lot of attention being paid in the last
12 few years to things like hedging strategies, but,
13 but those are effective only at the margin.

14 And we're, we're certainly in favor of
15 doing whatever we can to reduce the system average
16 heat rate. I think what I was, was referring to
17 is, you know, you talk about a combined cycle, and
18 definitely, you know, combined cycles are, are
19 vastly more efficient than, than some of the
20 technologies that we refer to in the aging plant
21 category, but we also have a problem that a lot of
22 new combined cycles are not operating at the kind
23 of capacity factors that you would hope and expect
24 to see for those more efficient units, and I'm not
25 fully aware of all the reasons for that. And

1 that, that might be something that, that you want
2 to take a look at.

3 But for whatever reason, other resources
4 are pushing those combined cycles up in the, the
5 loading order, if you will, so that they, they are
6 not, you know, the investment pays off more
7 quickly the more heavily the more efficient asset
8 is used, and yet we seem to be seeing, you know,
9 disappointingly low capacity factors for a number
10 of those units. And that affects any analysis
11 that you undertake of, you know, the cost
12 effectiveness of adding new ones. If it's going
13 to run at, you know, the 90-plus percent that it's
14 available, you know, you're going to pay off that
15 investment pretty quickly. But if it's running at
16 50 percent, it's going to take a lot longer.

17 And if it, if you're looking at, you
18 know, a need for peaking resources, clearly, you
19 know, you have to look somewhere else than that at
20 a resource that's designed to run more in a
21 baseload mode.

22 COMMISSIONER GEESMAN: Thank you.

23 VICE CHAIR PFANNENSTIEL: Mike, I have a
24 couple more observations of perhaps where we will
25 enter into some of these subjects in, in greater

1 depth over the next few months.

2 But your comment about the Energy
3 Commission probably should, at the outset, spend
4 time worrying about getting the SEPS process right
5 for the RPS is, it's sort of interesting because
6 that's the one part of the RPS that hasn't been
7 called into question at this point, just because
8 we haven't had applications for SEPS. Nothing has
9 come to us, so we don't know the fact that, that
10 the parties can speculate on the process. Whereas
11 the parts of the RPS that have come together, the
12 procurement, for example, the, the NPR, and we're
13 looking at numbers that, that aren't very
14 encouraging in the RPS, so far.

15 So the fact that the SEP process might
16 be discouraging some people perhaps, but I, I
17 think that there is a whole lot more to work with
18 than just that, in terms of the issues.

19 MR. FLORIO: Sure. I, I mention that
20 just because it's something that's clearly, you
21 know, in your ballpark. And, you know, certainly
22 the PUC is hearing plenty of suggestions about how
23 to improve its portions of the process. But, you
24 know, if, if you haven't gotten any applications I
25 think they'll be showing up soon, and, you know,

1 whatever can be done to give clear guidelines and,
2 and develop expectations in the developer
3 community about how that's going to work will
4 help, because, you know, they're -- we hear a lot
5 of concern about whether SEPS are going to be
6 forthcoming, you know.

7 VICE CHAIR PFANNENSTIEL: I agree that
8 that's an issue. I'm just pointing out that in
9 the whole investigation of the IEPR, the question
10 of the RPS's is somewhat broader than that.

11 MR. FLORIO: Sure.

12 VICE CHAIR PFANNENSTIEL: The other, the
13 other point is the comment that, interestingly,
14 that you and Gary Schoonyan agree on, that
15 customers don't like CPP pay rates. I, I'm, of
16 course, going to take exception with that and
17 might say that some customers don't, and many
18 customers don't understand them and many more
19 customers don't have them offered to them to
20 understand. So I do think that's going to be a
21 fruitful area to explore.

22 MR. FLORIO: I would, I would just say
23 I, I don't, wouldn't for a minute suggest that
24 there aren't some customers in, in our category of
25 residential who might be interested, but as you

1 know, I, I have great concerns about spending
2 several billion dollars of what will become a
3 ratepayer obligation to make that kind of pricing
4 available to every customer, because I, I just
5 don't, don't see the cost effectiveness playing
6 out there, so.

7 VICE CHAIR PFANNENSTIEL: Although in
8 the greater load management context, I think that
9 there are a lot of opportunities in front of us,
10 including some, some rates and rate design
11 opportunities. But the metering and the equipment
12 and the, whether it's a cycling side or the
13 metering side, I think that there are, there's a
14 lot going on right now that we need to look at.

15 MR. FLORIO: Certainly true.

16 COMMISSIONER GEESMAN: I wanted to, to
17 get back to SEPS. You used the metaphor,
18 ballparks. Why do we need two ballparks in this
19 area? You know, does it make any sense to have us
20 involved in SEPS?

21 MR. FLORIO: I don't know. I wasn't
22 directly involved in the legislative process that,
23 that generated that division of labor between
24 this --

25 COMMISSIONER GEESMAN: Your organization

1 certainly was.

2 MR. FLORIO: And I, I'm not the right
3 person to say why it ended up the way it did. I,
4 I don't know. And it may very well be that it
5 would be preferable to vest all of this in a
6 single agency. But we've got what we've got, and
7 we have aggressive goals that we really want to
8 meet. And, you know, there are continuing debates
9 across the street about whether to change the
10 structure of the program, but as long as we've got
11 what we've got, you know, all we can do is
12 encourage everybody to do the best they can within
13 the areas that they've been assigned.

14 COMMISSIONER GEESMAN: It just seems to
15 me that if you're trying to encourage something,
16 you try and streamline the process or de-
17 bottleneck the process. In the renewables area,
18 it is beyond me as to, to why there's value added
19 by having us make a SEP award when it would seem
20 to me that the expertise lies at the PUC. I would
21 argue the reciprocal applies in the transmission
22 permitting and planning area as well, and I think
23 that your organization might give some thought to
24 that, as well.

25 State government resources, as you know,

1 are pretty finite, and we ought to try and devote
2 those resources where we can best resolve the
3 problems that we confront.

4 MR. FLORIO: Sounds like a reasonable
5 idea.

6 VICE CHAIR PFANNENSTIEL: Steve, did you
7 have a question?

8 MR. ST. MARIE: Yes, I did. Thank you.
9 And, and I'm not expecting you to respond today.
10 But in various areas of our society, we have
11 gotten used to the idea of critical peak pricing.
12 Restaurants charge more in the evening than they
13 do at lunch time, for example. Movie theaters
14 have different ticket prices in the afternoon from
15 ticket prices in the evening. Clubs have cover
16 charges on weekends, but not necessarily on all of
17 the days of the week. Yet in electricity, we've
18 had a very difficult time applying this same
19 principle. And I, I know that your agency is a
20 thought leader on, on this matter.

21 And, and I'm hoping that the people who
22 are involved in thinking about these, this issue
23 will be able to develop ideas that will help
24 people to understand that, indeed, electric
25 resources are more scarce and more demanded at

1 certain times of the day, of the week, of the year
2 than at others, and that therefore the
3 implications for the customers are that there is a
4 higher cost that they are imposing on the system.

5 This apparently up to now, not
6 apparently, I know up to now we have had a focus
7 on the kinds of administrative programs that you
8 mentioned before, air conditioning cycling
9 programs, and other administrative demand
10 management programs. I'm looking for leadership
11 and, and I think that people at both Commissions
12 are looking for leadership from people outside of
13 the government's sphere to be able to develop the
14 ideas necessary to properly demonstrate this fact
15 to customers so that it can be acceptable to have
16 different prices at different times, not just for
17 those who desire such prices, but -- and, and have
18 already shown their ability to adapt easily, but
19 to those who would find it even a little bit
20 inconvenient to change their, their habits.

21 I know I would prefer to go movies in
22 the evening rather than the afternoon myself,
23 because that's the only time that I'm not working
24 in my office. I recognize that the price is going
25 to be higher at that time, yet I make the

1 sacrifice. That kind of thinking has to be
2 eventually developed for electric service
3 customers, as well.

4 MR. FLORIO: Yeah. I, I agree, and I
5 think part of it is, you know, how do you disperse
6 new technology in society and, you know, you look
7 at, you know, all the high tech that we have in
8 society today, and none of that's introduced by
9 government mandate, saying everybody must have a
10 home PC whether you want one or not. It's, you
11 know, someone gets it and somebody else sees their
12 neighbor with it and says this is really cool,
13 and, you know, that can happen to smart
14 thermostats and other kinds of, of technologies.

15 We're just concerned about, you know,
16 especially with the level of rates today, saying
17 we're going to launch a multi-billion dollar
18 metering initiative when, you know, we haven't had
19 that opinion leadership and, you know,
20 introduction of technology in the way that new
21 technology is normally dispersed in society. It
22 just seems to me that, you know, the policy makers
23 are way ahead of the public on this issue, and
24 that, you know, a little more step by step
25 approach might, might be more effective in the

1 long run.

2 COMMISSIONER GEESMAN: Yeah. Mike,
3 isn't this a, a social insurance question? It
4 seems to me that, that our existing rate structure
5 makes a presumption that electricity use is
6 fungible, or should be, to members of different
7 customer classes, that you can't really adjust how
8 or when you're going to use electricity in
9 society, as we have it today, and that we've made
10 a choice that okay, everybody's going to pay the
11 same no matter when they use the product.

12 I think from our standpoint, we look at
13 a system whose load factors are getting worse and
14 worse and worse, and likely to become much worse
15 in the future as population growth occurs in the
16 air conditioning areas of the state, and it's a
17 system whose brittleness appears to be most
18 intense during those peak periods, certainly whose
19 cost is greatest during those peak periods, and
20 the contra argument to the social insurance
21 approach is that individuals or businesses ought
22 to be encouraged to shift some of their
23 consumption away from those peak periods.

24 MR. FLORIO: Yeah. Well, we, we've had
25 time of use rates in this state for almost as long

1 as I can remember, not for -- not on a ubiquitous
2 basis for all customer classes, but certainly for
3 all large customers and on an optional basis for
4 smaller customers, and, you know, many customers
5 are perfectly happy using that.

6 COMMISSIONER GEESMAN: Do you think
7 that's a good idea?

8 MR. FLORIO: I, I think it's a good idea
9 to have it available on a voluntary basis for
10 small customers. I just think it's premature to
11 undertake the enormous expense of, of requiring it
12 for everyone.

13 COMMISSIONER GEESMAN: So you're focused
14 more on the required equipment that goes along
15 with it than necessarily the, the rate tariff
16 itself?

17 MR. FLORIO: Right. Right.

18 COMMISSIONER GEESMAN: Okay.

19 VICE CHAIR PFANNENSTIEL: Tim, did you
20 have a question? Thank you.

21 The next speaker is Todd Campbell.

22 MR. CAMPBELL: Good morning. My name
23 is, is Todd Campbell. I actually have a
24 presentation to prepare for you today. And just
25 by way of background, prior to joining Clean

1 Energy I served the environmental community almost
2 for a decade, two years at the Natural Resources
3 Defense Council, about seven years with the
4 Coalition for Clean Air as a policy and science
5 instructor for the latter organization.

6 And I'm also serving as the mayor of
7 Burbank, and I raise that only because I see that
8 there is a section in the IEPR being proposed, or
9 maybe it's already in the IEPR, for 2005, with
10 smart growth in community strategies, and I
11 strongly encourage the Commission to pursue that,
12 although I'd have to say as probably a very
13 progressive elected official down in that area,
14 its almost as emotional a topic as pump prices.

15 Trying to up-zone or down-zone anything
16 certainly is problematic, and trying to instill a
17 need to avoid environmental justice or injustice
18 scenarios, sometimes we're just not ready for
19 that. And, and so as much as I try, I just
20 caution you in terms of how much weight you put in
21 there, although I'm very, very encouraging of you
22 moving forward with this.

23 I think one of the bills actually that's
24 being presented in Sacramento right now about
25 further representation in the AQMD, our, our board

1 in the South Coast Air Basin, is partially being
2 driven because the fear of the guidelines
3 principle, our document that the South Coast
4 pulled together, and it was only a guidance
5 principle. But there, there's local fear that the
6 agency is trying to take control of land use
7 decisions. I'm sure you're, you're well aware of
8 that. So I just, I just wanted to raise that.
9 But I'm very appreciative of you pushing that
10 agenda forward.

11 I'm here to talk to you about mainly the
12 transportation section of the IEPR. Could I have
13 the next slide, please?

14 And talk to you about the series of
15 alternate fuels that are primarily being
16 considered to reduce our petroleum dependence here
17 in California and, and the nation, for that
18 matter.

19 Next slide, please.

20 And you might want to go through this
21 quickly, because I -- this is just background
22 information with regards to where we are in terms
23 of demand, what the United States oil use is, and
24 then also to say that our company believes that
25 production is in decline, and that, in fact, we

1 are going to find ourselves in a, a huge
2 shortfall.

3 Please, all right, we're going to just
4 go through this.

5 Our, one of our main -- you know, these
6 things are always a good idea at the time and then
7 you realize that you're not in the clicker
8 control, and so -- but, but basically, as you
9 know, Boone Pickens is a majority shareholder of
10 our company. He's, he's very knowledgeable in the
11 industry. And a number of -- oops, you went too
12 far. Okay.

13 We went through various sources of
14 reserves, and for various reasons, like, for
15 example, the National Wildlife Refuge, there's
16 lots of talk about opening up the refuge in terms
17 of expanding sources. And as you know, we're
18 pipeline constrained, and so whether or not we can
19 actually expand there, we're still constrained by
20 that pipeline. And we're already about, should be
21 about 1.2 million barrels per day at the point, at
22 this point. So not much gain there. But
23 obviously, even if you consider all of these
24 sources, we're still about 30 million barrels
25 short in the future.

1 Next, please.

2 And then I just went on to point here on
3 this slide, there was a comment mentioned that
4 incentives or mandates should probably not be
5 considered to bring forward alternatives. And I
6 would argue that if you don't consider alternative
7 strategies to get fuels to market in what I think
8 is a, is a fairly mono market at this point, you
9 will actually be recommending a policy of the
10 status quo.

11 And I think that the pump prices at
12 which they are today, I don't think that's
13 sustainable. I think that competition is very
14 good and that the marketplace does need to be re-
15 invigorated with alternatives for consumers. In
16 fact, I would argue that even though ultra low
17 sulfur diesel is often painted as a alternative
18 fuel, it actually will increase the constraints on
19 refining capacity because you have to get 500 or
20 250 part per million sulfur fuel down to 15 parts
21 per million, and that is all, of course, for the
22 goal of clean air. But it certainly isn't for the
23 goal of, of fuel efficiency.

24 The other things that I think are
25 important to remember is, is even though I think

1 it's very laudable that the administration at the
2 federal level is proposing a plan to reduce our
3 consumption that they themselves recognize that
4 only modest gains will be achieved in the near
5 term, and that pump prices will be -- remain high
6 well into the future. In fact, it's our opinion
7 unless there's a global recession most producers
8 will try to keep barrel price at \$60 per barrel.

9 So -- oh, you moved forward. Good for
10 you. So taking a look at, at the different
11 alternatives, I just want to mention right now,
12 Clean Energy is very supportive of all
13 alternatives. We think that, in fact we're a
14 member of Cal LEAP, it's -- no, I'm sorry, it's,
15 it's Cal STEP, and the, the reason why we joined
16 that, that organization was because we do believe
17 that California needs to do something about
18 petroleum dependence.

19 That said, we know that current
20 production is about 3.6 billion gallons per year.
21 We're hoping with the President's plan that we'll
22 get to seven and a half billion gallons per year,
23 but that is only 5.3 percent of current usage.
24 Where will cellulose production take us? You
25 know, it's really depending upon how much research

1 and development is put into there. We hear
2 figures as high as 50 billion gallons per year by
3 2050. But if you even apply that today for
4 current usage it's about 25 percent.

5 So clearly, fuel economy standards and
6 improvement of, of those standards is extremely
7 important. And listening to Secretary Norman
8 Minetta last, last week, or two weeks ago, at the
9 Southern California Association of Governments,
10 know that they're, they're working on it, but I'm
11 concerned that there are so many loopholes that we
12 should not just latch onto a, a federal fix just
13 quite yet.

14 The other challenges, of course, and a
15 big fear for me as an air quality advocate, is the
16 mixture of, of ethanol with gasoline. And that's
17 primarily why we're opposed to flexible vehicles
18 by policy. We think that if you're truly going to
19 reduce emissions and also reduce petroleum
20 strategies, you really need to get away from the
21 flex fuel vehicle. In fact, we think that that's
22 a, a big loophole in CAFE by allowing auto
23 manufacturers to build flex fuel vehicles because,
24 unfortunately, it doesn't allow you to build
25 stations. And as you know, California has, I

1 think, unless I'm -- numbers have changed, roughly
2 about three stations in, in the state of
3 California with one only being publicly
4 accessible. So something needs to be done about
5 that.

6 But furthermore, if you run out of
7 ethanol and you're trying to do your best and
8 you're a good citizen, and you're trying to stay
9 at E-85 and you fill up with, with gasoline down
10 the road, as Paul Weubben, a very well respected
11 air quality specialist at the South Coast Air
12 Quality Management District, and has been an
13 advisor to former Cal-EPA Secretary Lloyd, notes
14 that you are back to square one with a low blend
15 impact which will raise VOCs, or volatile organic
16 compounds, which are a smog forming chemical. And
17 it's a very big concern for us, especially in the
18 south coast, because that, just the E-10 adds
19 about 30 to 50 tons per day in terms of VOCs, and
20 we're already about 500 tons per day short of
21 meeting healthier standards.

22 With bio-diesel, also, again, there are
23 some numbers that have been put out there, 1.6
24 billion gallons per year I think is, is what we
25 have estimated for 2001. We expect that to

1 increase to 3.15 billion gallons by 2015, and, and
2 with a tremendous push, possibly 10 billion
3 gallons by 2030. And as you can see, still only
4 five to 16 percent of current U.S. diesel demand.
5 So clearly, you need not only two push forward
6 with ethanol and bio-diesel, but also with natural
7 gas in our, in our view. And that's actually the
8 next slide. I'm not going to trouble you with the
9 bio-diesel impacts with the air quality.

10 I think that what we need to do in terms
11 of when we push forward with these fuels, we need
12 to address those impacts and figure out how we can
13 get ethanols, VOC emissions down and under control
14 so that we meet air quality standards, but also
15 that for bio-diesel.

16 In terms of, of natural gas, I think
17 that it's extremely important for you to recognize
18 that in, for whatever reason, in the 2005 IEPR
19 there was a, a statement that natural gas is 90
20 percent imported in California. And I just wanted
21 to call attention, the Committee's attention that,
22 that roughly 98 percent of the natural gas that's
23 being used in California or in the United States
24 is from North America, two percent is from
25 overseas. And even if you consider the LNG import

1 that's being proposed, you're, you're talking
2 about five to ten percent total import.

3 That's much different than the 63
4 percent overseas import that you're talking about
5 with petroleum products, and therefore, it just
6 doesn't seem to be a very fair comparison, and I
7 certainly don't think that we should be drawing
8 lines around the state of California, although it
9 would be idealistic to be completely independent.
10 But everyone know it be an ideal dream for, for me
11 and, and you, and we could all go home happy. But
12 unfortunately, we will need a diverse strategy to
13 meet the future's goals.

14 And just to give you kind of a, a
15 reference point, currently only .0 -- or .052
16 percent of, of natural gas today in the United
17 States is being consumed for transportation. If
18 you wanted to fuel 500,000 trucks, that's roughly
19 eight percent of the heavy duty fleet from Class 3
20 to 8 vehicles, and that would equate to about four
21 percent of the natural, current natural gas use.
22 If you want to even go further and say how many
23 vehicles on the road could a four percent use of
24 natural gas actually supply, it would be 11
25 million light duty vehicles.

1 So it's quite a significant number, and
2 that's something that we would hope that the
3 Commission and the Committee would consider.

4 With regards to fuel price. I think
5 that something should be clarified in the 2005
6 IEPR, and namely, that's the use of EIA's numbers
7 in the past for \$23 a barrel oil, and \$9 to \$11
8 natural gas. Clearly, that does not reflect the
9 current situation, and in fact, at the Haagen-Smit
10 conference held by the Air Resources Board earlier
11 this week, EIA presented their new 2006 forecast
12 numbers of \$50 to \$55 per barrel for oil, and \$5
13 to \$5.50 for natural gas.

14 So, of course, our concern is we don't
15 want to necessarily make a real option that we
16 think has, holds real promise for the state of
17 California, non-competitive, and we think that the
18 way that natural gas has been painted in the IEPR
19 for 2005, it makes it appear non-competitive when
20 in reality natural gas is extremely competitive.
21 And the example -- going a little too fast.

22 I just wanted to point out here that
23 using a, roughly a \$7 price for natural gas, and
24 this is something that we've been able to do for a
25 lot of our customers, comes out to \$1.82 gasoline

1 gallon equivalent. Furthermore, the other
2 comparison is, is that \$2.02 provides for LNG when
3 you compare it to, to a diesel gallon equivalent.
4 Fuel providers, like us, do use natural gas
5 futures, and that enables us to offer customers
6 three to ten years of, of fixed pricing in terms
7 of our contracts for fuel. And we've been able to
8 offer anywhere from \$1.40 to \$1.80 for the next
9 ten years for some properties, as long as they're
10 using high fuel, or they're, they're in the high
11 fuel business.

12 For 2005, it should also be noted that
13 -- well, next slide, please.

14 This is another good comparison here.
15 When you look across, and I will actually note
16 you'll see that there's some impact with EPACT
17 2005 with some blending. You can see that B99 is
18 starting to be used to get, get down the price.
19 But as you see, that, that enables most of the
20 fuels to be cheaper than petroleum products and
21 natural gas and, and a diesel gallon equivalent or
22 a gasoline gallon equivalent still continues to be
23 the, the cheapest alternative when you compare it
24 to petroleum.

25 We also would like to say that the

1 EPACT, or the Energy Policy Act for 2005 also
2 reduces the incremental cost of vehicles up to
3 \$32,000 per vehicle in terms of a tax credit for
4 heavy-duty vehicles, \$4,000 for light-duty
5 vehicles, \$30,000 for infrastructure, the fueling
6 stations, and \$1,000 for home fueling stations
7 like the fill that enables people to actually fill
8 up at home, which is another way to reduce
9 petroleum fairly effectively.

10 And just wanted to remind you that in
11 2005, natural gas displaced petroleum by 100
12 million gallons with 360 stations that currently
13 exist in California.

14 In terms of emissions, natural gas
15 overall clearly is in the lead. This is a light-
16 duty vehicle emissions comparison. As you can
17 see, very, performs very well in terms of oxides
18 and nitrogen. Non-methane hydrocarbons, carbon
19 monoxide, and carbon dioxide, of course, if you
20 look at the bio-diesel CO2 benefit, if, if that's,
21 if that's actually coming from plant stock, then
22 you, you have to kind of erode that CO2 benefit
23 down. So, but overall, natural gas and the light-
24 duty configurations, which comes in either a Honda
25 Civic GX or some GM products also. We did it

1 through a small volume manufacturer that made the
2 Crown Vic available for this year as well, from
3 Ford. So we're trying to push as hard as we can
4 to help you achieve success in fuel diversity.

5 The next slide presents the emission
6 standards for heavy-duty applications. As you can
7 see, again, natural gas performs very, very well,
8 and in fact it's pushing the standards where we're
9 going to meet the 2010 heavy-duty standards in
10 2007. That's, no other technology or, or fuel can
11 claim that. And that's why you're seeing such
12 tremendous reductions in terms of, of air quality
13 emissions when you compare it to other alternative
14 fuels here.

15 So to conclude, clearly we, we must
16 develop strategies that avoid economic and
17 security disaster. I didn't mention the, the
18 point about Nigeria and Iran and other
19 instabilities that possibly may come our way, but
20 certainly we have to make up that 30 million
21 barrel cap. And how we do that will require all
22 alternative fuel strategies to move forward.
23 Certainly hybrid technologies will help, but, you
24 know, as, as I always viewed them as they are
25 extending our ability to use certain fuels,

1 they're not the ultimate solution. And it's
2 important for us to have a variety of, of
3 alternatives for consumers so that we have
4 competition in the marketplace.

5 Besides natural gas and the vehicles
6 having superior economics, a proven product line
7 and air quality benefits, we'd like to encourage
8 the Commission to update the EIA numbers to
9 reflect the, the current pricing for oil as well
10 as natural gas, and also to include the, the
11 benefits that are being brought forth in terms of
12 incremental cost making natural gas products very
13 competitive, as well as bio-diesel and ethanol
14 products through EPACT by reducing that
15 incremental cost per vehicle.

16 And with that, I'm available for any
17 questions.

18 COMMISSIONER GEESMAN: Yeah. I
19 appreciate your remarks and your, your unique
20 position both as a locally elected official and a
21 representative of the clean fuels industry.

22 My question is really directed at both
23 hats that you wear, and that is whether you think
24 that there is a way that the state could better
25 harness the sense of innovation and enthusiasm

1 that tends to exist at the local government level
2 in the transportation fuels area. We seem to get
3 bogged down at the state level in these huge macro
4 debates, and yet in so many areas we see local
5 governments moving forward without the same
6 inhibitions that seem to stop us.

7 Can you, can you tell us whether,
8 whether there's some better way that we can
9 harness that energy that exists at the local
10 level?

11 MR. CAMPBELL: You know, Commissioner
12 Geesman, that's a, that's an excellent question,
13 and I can bring an example to you that may help
14 you understand at least a local, my local
15 perspective, at least, with barriers and trying to
16 get cities engaged in using more alternative
17 fuels.

18 As you know, I'm speaking as, purely as
19 an elected official. Burbank has a hydrogen
20 natural gas and even low sulfur diesel fleets.
21 We, we employ every strategy to reduce emissions
22 because, unfortunately, we're the sixth sootiest
23 city in the nation. So we are trying our best to
24 not only have fuel diversification and try to also
25 have competitive pricing so that we can also have

1 city services at the same level year after year,
2 which, you know, you and I know that they're very
3 hard to maintain. We try to look at different
4 strategies to achieve that.

5 That said, unfortunately, the way the
6 Carl Moyer program has been changing over the
7 years, being progressive and trying to invest in
8 alternative fuel strategies, that has been eroded
9 significantly by the introduction of particulate
10 matters and other elements. And because we focus
11 so much on oxides and nitrogen, now it's appearing
12 that particulate matter is the much more cost
13 effective strategy. And when PM was introduced as
14 a component for NOx, it wasn't introduced to
15 dominate the program. It was so that we can think
16 more comprehensively and we can tackle both
17 problems at the same time.

18 What's in reality happening is, is that
19 we're only focusing now on PM and Carl Moyer has
20 become a PM program. Which, in a public health
21 perspective, is, is not necessarily a bad thing,
22 but at the same time we're very, very worried
23 knowing that, you know, the Southern California
24 Association of Governments needs to find
25 attainment by 2021 with standards that we're

1 ignoring a very large source that is impacting
2 children and the populace.

3 And so what we'd like to see is when a
4 city wants to move forward and do something
5 progressive beyond the Air Resources Board, the
6 Air Resources Board doesn't say oh, well, those
7 are already captured emissions, that's great.
8 You're moving forward, but we're not going to give
9 you any money for doing it because, you know,
10 obviously you require that. And that's a very
11 frustration -- frustrating position to be in.

12 So I, I think the, you know, obviously
13 at the state level the challenge is, is to have,
14 design or craft legislation that addresses
15 statewide problems at the local level, but
16 unfortunately, one size doesn't always fit all,
17 and that's where we're getting caught.

18 COMMISSIONER GEESMAN: I appreciate
19 that, and I certainly hope that, that we can
20 devote a considerable amount of attention in the
21 AB 1007 portion of this 2006 report to figuring
22 out ways to better assist local government in
23 meeting our objectives.

24 VICE CHAIR PFANNENSTIEL: I want to
25 thank you also, and I, we take to heart your, your

1 cautions about stepping into the land use planning
2 area. And we knew, even as we put that on our
3 list of issues that we really needed to, to deal
4 with, that it was not going to be easy, and it was
5 not going to be traditional in terms of the, the
6 kind of analysis we've done here.

7 Yet, on the other hand, we can't ignore
8 it both from the, the transportation element as
9 well as from the electricity/natural gas side of,
10 of what we're concerned with.

11 So we're going to look to local
12 officials to help us on those issues. We are
13 working with local officials on our solar
14 initiative, where we're attempting to work with
15 the wind, the housing industry, the home
16 developers, to encourage them to offer solar on
17 homes and, and part of what they need is more
18 involvement with the local officials.

19 And so we're trying to bring this
20 together as part of a longer term strategy. So
21 when we get to what can we do and how can we
22 effect the land use decisions in a way that would
23 take transportation into account, will, will look
24 to people like yourself to help us in that. So
25 thank you for being here.

1 MR. CAMPBELL: Thank you.

2 MR. TUTT: Yes, I just had one question.
3 Your slide talks about hybrid technology will help
4 in this transportation arena. Have you looked at
5 the potential for plug-in hybrids and have you
6 looked at the potential for natural gas vehicle
7 hybrids?

8 MR. CAMPBELL: Well, speaking as a
9 mayor, we're, we are probably more than power is a
10 part of the plug-in program for hybrid electrics,
11 and certainly that shows promise at the Air
12 Quality Management District level. There's hopes
13 that you can get a Prius that not just goes
14 whatever, the 300 miles or whatever it was, but it
15 can possibly get up to a thousand miles depending
16 on the commuter's range.

17 I think the integration of hybrid
18 electrics into natural gas and other alternative
19 fuels certainly is something that, that is going
20 to come, it has to come. But, but the, the
21 question is when will that time come, because when
22 you look at, for example, New York studies where
23 you have hybrid electric buses, they perform very
24 well because they're stop and go constantly, and
25 it just makes, it's a perfect cycle for that.

1 Whereas you have like, for example, a rapid bus
2 system in downtown Los Angeles or another
3 condition, it doesn't make any sense. In fact,
4 you, you go upside down.

5 So we need to, to, you know, I think in
6 the future as, unfortunately, as our mobility
7 continues to hatch down, I think that it will
8 become more of a, a positive strategy. But, you
9 know, we certainly think it's ultimately going to
10 be one that, that we'll need to use for all fuels,
11 ultimately.

12 VICE CHAIR PFANNENSTIEL: Thank you very
13 much.

14 MR. CAMPBELL: Thank you.

15 VICE CHAIR PFANNENSTIEL: I'm now moving
16 into this pile of blue cards that I have.

17 And we'll start with Bruce McLaughlin of
18 the California Municipal Utilities Association.

19 MR. McLAUGHLIN: Good morning,
20 Commissioners. Bruce McLaughlin, CMUA.

21 I have basically a
22 comment/suggestion/question on the proposed
23 schedule. And so I'm reiterating what I said last
24 week in the, the data reg workshop.

25 CMUA would be interested to see an

1 expanded set of stakeholder input through staff
2 led workshops, as opposed to last week's example
3 was very difficult to follow, the telephone system
4 was lost for a while, people who had either called
5 in or Webcast or whatever weren't able to follow.
6 And I think you have a good number of competent
7 staff who could have round table type
8 workshops. When we're presented with
9 these voluminous reports by staff and then we're
10 only allowed to come up here and speak and then
11 sit down for a couple hours, not able to talk face
12 to face with the people that have made other
13 comments on the staff report, it sort of hinders,
14 I think, the robust discussion on the extreme
15 technical issues that you cover here at the Energy
16 Commission.

17 So as you go forward in this phase of
18 the IEPR, does this section here in the proposed
19 schedule, initiate public workshops for more
20 detailed scoping and planning, and then your
21 public workshops on the issue papers between July
22 17th and August 18th, does that include that type
23 of workshop, or would it be the more traditional
24 energy workshop such as you held last week? Is
25 that a question you can answer now, or take under

1 advisement?

2 VICE CHAIR PFANNENSTIEL: Well, I was
3 going to say I think as we, we contemplated it, it
4 would be the more traditional workshop, which does
5 not mean we couldn't think of some other format.
6 But generally what we try to do is, is seek the
7 maximum amount of public input, and this has
8 served us well to do that. But we hear and will
9 consider your concerns.

10 MR. McLAUGHLIN: CMUA would eagerly
11 participate in any of the workshops that pertain
12 to issues related to the municipal utilities.
13 Thank you very much.

14 COMMISSIONER GEESMAN: Yeah, Bruce, let
15 me, let me also add to that, two things. One, I
16 would encourage your members to sit down with the
17 staff in a meeting at your initiative, whenever
18 you think it would be a good idea, and if you
19 think the format of these workshops is either too
20 formal or too confining, you might recommend to
21 Lorraine that we, we experiment with different
22 formats such as having all of you, or all of the
23 participants sit around these chairs and a little
24 bit more of an open-ended discussion than fixed
25 presentations.

1 MR. McLAUGHLIN: Excellent. Thank you.

2 VICE CHAIR PFANNENSTIEL: Next we have
3 Tom Fulks.

4 MR. FULKS: Commissioners, thank you for
5 allowing me to speak today. My name is Tom Fulks.
6 I am, my company is called MIGHTYCOMM, we're here
7 representing two clients today, the Robert Bosch
8 Corporation on behalf of light-duty diesel, and
9 then in a couple of minutes, NSTI Oil, which is a
10 Finnish oil refinery, refining company that is
11 working on some advanced renewable diesel
12 technology that I'd like to talk to you about.

13 I am at a little bit of a disadvantage
14 today. My computer just died, and so I'm just
15 cribbing from notes that I had to remember, so
16 forgive me. I will be submitting for the docket
17 the formal comments from Bosch and the formal
18 comments and the presentation from NSTI by the
19 deadline that's been identified in the public
20 notice.

21 First, on behalf of the Robert Bosch
22 Corporation, I would like to once again, as we
23 said at the 2005 IEPR public hearing, Bosch is
24 very gratified that light-duty diesel technology
25 was recognized as a petroleum reduction technology

1 in, in the IEPR. It is a significant technology
2 in the technology, in terms of emissions areas,
3 improving, you know, very rapidly. And so as a
4 result of that, we would like to see the 2007 IEPR
5 further refine and enhance the role in California
6 of light-duty diesel, just due to its inherent
7 fuel economy. And by this, I, I mean really dive
8 into the rapidly advancing emissions technology.

9 In the 2005 IEPR, there was still this
10 sort of passing reference of well, we've got our
11 serious doubts that the emissions are going to be
12 worthy of consideration down the road. Well, the
13 test has been passed in terms of technology
14 announcements by the automakers, and so what we
15 would like to see is some further acknowledgment
16 within the document that these vehicles will be
17 and -- are and will be emissions compliant by the
18 2007 EPA deadline for Tier -- compliance, 2010,
19 and so forth.

20 So the product announcements that have
21 been made by the automakers in recent months are
22 concrete, they've made commitments, and so we
23 would like that language at least to be reflected
24 in the staff research for the 2007 IEPR.

25 Just on a philosophical note, we would

1 also like to emphasize is that if the state and
2 the Bio-Energy Action Plan, the 1007 Alternative
3 Fuels Plan that you're developing, if we expect to
4 use more alternative fuels in the state we really
5 have to do everything we can to get more vehicles
6 in the state that can use the fuels and can take
7 advantage of existing fueling infrastructure, and
8 so forth. So again, light-duty diesel can compete
9 along with the other plug-in hybrids and the
10 hybrid, hybrids and everything else in terms of
11 fuel economy and emissions.

12 Now, to me, the, one of the most
13 important things that we would like the IEPR to
14 address in 2007 is a process issue having to do
15 with somehow or another synchronizing the
16 knowledge base of renewable fuels technology among
17 -- and this, this has to go with terms and
18 specifications having to do with fuel quality and
19 emissions, technology requirements for the fuel.
20 And we would like to see that knowledge base
21 synchronized between CEC, Air Resources Board, the
22 Division of Measurement Standards, legislators,
23 their staff, committee staff at the Legislature,
24 because what we're finding is a great deal of lag
25 time between what you know and what we know, and

1 what -- and I'm not bringing the Air Resources
2 Board into this, but between what we have been
3 discussing and spending a lot of time working on,
4 and then that doesn't seem to be translated over
5 at the legislative level, and the knowledge base
6 is a little bit behind. I'd say a lot behind, and
7 I'm trying to be as diplomatic as I can about
8 that.

9 And so I don't know how you do it.
10 It's, I, I'm, I'm empathetic in terms of how you
11 go about the process, but what we're saying is if
12 there's any way we can help, let us know. We,
13 we'd be happy to do that, as well. And as I said,
14 we will, Bosch will be submitting its written
15 comments to the docket along those lines.

16 Now then, with the other hat I wear.
17 I'm not a mayor, but I do have another client that
18 I need to talk about, and that's on the fuel side
19 of things. The, once again, NSTI Oil is a very
20 unknown factor in the United States right now. It
21 is the European Union equivalent of a Tesoro, if
22 that makes any sense. So it is opening a bio-mass
23 to liquid diesel fuel refinery in Finland in July
24 of 2007, and it very much wants to open a refinery
25 in California with this technology.

1 And so the comments I made about
2 synching up the knowledge base about alternative
3 fuels among all of the various policy players,
4 NSTI would also reiterate that same concern, just
5 based on its experience dealing with the
6 legislative process with AB -- excuse me, with SB
7 1675.

8 And along those lines, what we would
9 like to see the, the 2007 IEPR address is a
10 definition of terms, some glossary of terms so we
11 all have a uniform understanding of what means
12 what in the bio-fuel world, because right now we
13 have a sort of a branding issue among the bio-
14 diesel industry and the, the soy, traditional soy
15 based bio-diesel, that type of technology, there
16 seems to be some ownership of the word "bio-
17 diesel". And along comes the second generation
18 technology that's renewable diesel fuel using the
19 exact same feedstocks but a different process,
20 injecting hydrogen into the process and so forth,
21 suddenly the, the other brand bio-diesel folks
22 don't want the new generation of bio, of renewable
23 fuel to be able to use the word "bio-diesel".

24 And so I think, I can't think of a
25 better challenge for the Energy Commission than to

1 dive in, get current on all of the really rapidly
2 growing technologies in the alternative fuel
3 world, and just set out your own California
4 glossary of terms so that we all from here forward
5 know what's what. And then when that goes over to
6 the Legislature and they're dealing with these
7 sort of command and control processes, they know
8 what the terms are. Because in the, in, in SB
9 1675, there has been a, just a heck of a time
10 using, getting the words "renewable diesel"
11 inserted into that bill versus "bio-diesel" as
12 specified by ASTM's certain specification
13 standard. That bill, that number, as written,
14 mandates a certain type of, of fuel, which causes
15 all sorts of problems down the road, which we
16 could get into later on.

17 But the point is, you guys could do just
18 a tremendous service to everyone by defining your
19 own terms. You can make the rules. So we, we're
20 suggesting that you do that.

21 Additionally, we'd like to see the 2007
22 IEPR establish a clear numerical goals and
23 deadlines for volume production of various
24 renewable fuels, whatever type it is, first
25 generation, second generation, it would be great

1 to at least say okay, we know what the target date
2 is.

3 We would also like to recommend that
4 the, in the IEPR it identify potential renewable
5 diesel refinery sites and feedstock sources,
6 because as I said, NSTI, as a European operator,
7 would like to come in, but it doesn't want to burn
8 up a lot of its resources basically getting kicked
9 out of one community after another before it, it
10 can find a place to go.

11 Given all of the traditional -- I'm a
12 native Californian, I mean, I know what goes on.
13 I'm from San Luis Obispo. We hate everything
14 there. And so, but I'm in Sacramento now, and so
15 I'm learning that there are, you know, various
16 places that, that these sorts of facilities can
17 land.

18 And along those lines, we would like for
19 there to be some sort of identification of
20 regulatory community and environmental barriers,
21 just generically speaking, that could be addressed
22 up front rather than having to each individual
23 operator having to come in and discover this on
24 its own, at its own expense. That just slows down
25 the development of the bio-fuels industry overall

1 unnecessarily, in our view. And we would also
2 like for the CEC to identify remedies to these
3 barriers. And again, we will be happy to assist
4 you in that.

5 And now, on my crib notes. If it's
6 possible, we would like for there to be some sort
7 of an economic analysis about the viability of the
8 various technologies and what the future, the
9 bio -- renewable fuel technologies and what the
10 future might hold. And that's it.

11 So I will be submitting these comments
12 formally when I can get my computer up and
13 running. And we'll take it from there.

14 VICE CHAIR PFANNENSTIEL: Commissioner
15 Geesman.

16 COMMISSIONER GEESMAN: You spoke of
17 goals and timelines for fuel production.

18 MR. FULKS: Yes. Not just consumption.
19 We, we know what that is.

20 COMMISSIONER GEESMAN: Well, I guess
21 that's, that's my question. From a state law
22 standpoint, are we better off focusing on
23 production targets or better off focusing on
24 consumption or use targets?

25 MR. FULKS: Well, I think it's not up to

1 us to really get into that, because you're going
2 to do what you need to do, and we're just going to
3 help along the way, provide information.

4 COMMISSIONER GEESMAN: Yeah, but we,
5 we'd sure like some advice.

6 MR. FULKS: Well, the, the advice that
7 we would like to, to offer you is the industry as
8 a whole could really use some help in identifying
9 realistic numbers for what could we possibly do to
10 produce the bio -- I should say renewable fuels
11 within the state of California, given certain
12 scenarios. How much feedstock would we need
13 produced in California. How much would we need,
14 would we need to, to import. At what point on the
15 calendar could we flip it over so that we could
16 expect California to be able to produce so much
17 feedstock, given that there's now a market for
18 these products, for these crops, and so forth.
19 When could we see, see on the calendar when
20 California could wean itself off of crops imported
21 from other states, and so forth.

22 Those would be very helpful figures for
23 not just NSTI Oil but for I think a lot of other
24 folks, just because it's, it would help speed up
25 the process for those smaller innovates who may

1 not be as capitalized but who want to put their
2 money into actual manufacturing and production
3 versus market research and analysis and everything
4 else. I think this is a service that the CEC
5 could provide.

6 COMMISSIONER GEESMAN: Thank you.

7 MR. FULKS: Thanks.

8 VICE CHAIR PFANNENSTIEL: Thank you very
9 much. Very useful suggestions.

10 Sepideh Khosrowjah -- sorry.

11 MS. KHOSROWJAH: Good morning,
12 Commissioner, Staff. My name is Sepideh
13 Khosrowjah, and I represent a division of
14 ratepayer advocates, the ORA, at the California
15 Public Utilities Commission. The ORA represents
16 the interest of ratepayers in California,
17 especially small business and residential
18 customers.

19 On behalf of the ORA, I would like to
20 thank you and the CEC staff for taking on this
21 crucial task to develop energy policies for the
22 entire statewide considering safety, reliability
23 and environmental factors. The ORA will monitor
24 and where possible provide input and feedback from
25 a ratepayer perspective in the 2007 IEPR. The ORA

1 shares the CEC's concern as expressed in the 2005
2 IEPR over California's need to resolve issues and
3 move forward aggressively on renewables and other
4 priority resources as articulated in EAP-2.

5 The ORA is also concerned, as TURN is
6 concerned, with the high state's electricity rate
7 and would like to see the CEC address this
8 fundamental economic issue as it assesses the
9 state's electricity needs and the infrastructure
10 alternatives to meet them.

11 So I'm just here to let you know the ORA
12 is going to monitor this process, and these are
13 our concerns.

14 COMMISSIONER GEESMAN: I, I want to
15 thank you for being here, and certainly invite
16 your full-fledged participation in this cycle. A
17 couple of the, the evidentiary high points in the
18 2005 cycle were provided by both Scott Cushoin and
19 Bob Kinosian last year, and it, it greatly
20 assisted our process, and I certainly invite you
21 to continue in that tradition this time.

22 MS. KHOSROWJAH: And we are planning to
23 do so. Thank you very much.

24 VICE CHAIR PFANNENSTIEL: Thank you very
25 much for being here.

1 Rod Aoki.

2 MR. AOKI: Good morning, Commissioners
3 and members of the panel. My name is Rod Aoki,
4 and I'm here today for the Cogeneration
5 Association of California and the Energy Producers
6 and Users Coalition.

7 The last time I had the opportunity to
8 speak before you was to express my clients'
9 appreciation for the positive statements and
10 directives which were contained in the 2005 IEPR
11 for both the retention of existing and promotion
12 of new combined heat and power resources. And I
13 wanted to let you know today that CEC and EPUC are
14 both working both in CPUC proceedings that are
15 ongoing, as well as before the California ISO to
16 work in an effort to implement the recommendations
17 for CHP that are contained the '05 IEPR.

18 As you move forward with the 2006 update
19 and the 2007 IEPR, we would ask that you continue
20 to keep CHP in mind and keep a focus on CHP among
21 the other things that you have to do for two
22 primary reasons.

23 The first is that we believe there are
24 still recommendations in the 2005 IEPR which
25 remain to be addressed, and some of these examples

1 are, from the IEPR, the Energy Commission and CPUC
2 should work together to evaluate whether contracts
3 should have terms with the same economic life as
4 avoided resources. By the end of 2006, the Energy
5 Commission and CPUC should collaboratively
6 translate the goal of 5400 megawatts of CHP by
7 2020, and to annual IOU procurement targets.

8 Energy Commission and CPUC should
9 establish mechanisms to ensure that existing CHP
10 systems retain their baseload positions in IOU
11 portfolios, and encouragement of CHP at the
12 state's petroleum refineries to make them less
13 vulnerable to power outages.

14 The second reason is as we have been
15 working to implement the 2005 IEPR recommendations
16 for CHP, we are continuing to meet some levels of
17 resistance. And just a couple examples of
18 that. In the long term QF policy
19 proceeding which is ongoing before the CPUC, the
20 utilities took the position that the loading order
21 preference for CHP resources that is contained in
22 the EAP2 only applies to units ten megawatts or
23 smaller. And we believe this is in direct
24 contravention to the statements and discussion in
25 the 2005 IEPR that the greatest benefits were to

1 be attained -- obtained from larger CHP systems.

2 Secondly, as I think you know, in the
3 first phase of the 2006 procurement proceeding
4 before the CPUC, there is a proposal to procure
5 significant amounts of new generation, and at this
6 point, although statements have been made that
7 this is, this process is complying with the EAP2
8 and the loading order, we have no reason or no
9 ability to really assess that, what analysis has
10 been done, and whether or not any loading order
11 resources such as CHP resources will be selected
12 in that process.

13 So we just wanted to let you know we are
14 going to continue to participate in this
15 proceeding both on the '06 update and the '07
16 IEPR, and would ask again for your continued focus
17 on CHP issues, because we think they'll be of
18 great assistance to us as we continue to advocate
19 for the preservation of the benefits provided by
20 CHP and to implement the important state policies
21 that were contained in the '05 IEPR.

22 Thank you very much.

23 COMMISSIONER GEESMAN: Thanks, Rod. I
24 think you can rest assured that we'll stay
25 focused. We're not a rate-setting entity, and not

1 inclined to, to second guess our colleagues to the
2 appropriate calculation of avoided cost. But I do
3 think that we have a strong commitment to meeting
4 the state's infrastructure needs as expressed in
5 the 2005 IEPR, and I think that if we do stay
6 focused, we can make some good progress in this
7 cycle toward accomplishing that.

8 One thing that I, I would call your
9 attention to that I, I think is worthy of
10 exploration. We got into this, as you may know,
11 at the Energy Action Plan meeting both commissions
12 had about ten days ago. And Shawn Gallagher from
13 the Energy Division of the CPUC mentioned the
14 concept of a California PURPA, or a state law
15 purchase obligation. And I think that's, that's
16 worthy of the various lawyers that hover around
17 this area exploring.

18 There were some preliminary views
19 expressed at that meeting, and I certainly
20 wouldn't hold anyone to those preliminary
21 opinions, but I think it, it's worthy of trying to
22 do some research and determine how we can best
23 meet our hopes and expectations for the CHP
24 sector.

25 MR. AOKI: Thank you, Commissioner

1 Geesman. We are working on that very issue.1

2 VICE CHAIR PFANNENSTIEL: Great. Thank
3 you.

4 MR. AOKI: Thank you.

5 VICE CHAIR PFANNENSTIEL: Al Pak, from
6 Semptra.

7 MR. PAK: Thank you, Commissioner.

8 Commissioner Geesman, I hope you notice
9 I didn't bring my coal projects with me this year.

10 (Laughter.)

11 COMMISSIONER GEESMAN: I don't think you
12 have any of those left, do you?

13 MR. PAK: Well, they're still on the
14 books. No, those are the original and 12 copies
15 of --

16 COMMISSIONER GEESMAN: I think those are
17 characterized on your books as wasting assets.

18 MR. PAK: I think that's the class
19 they're in, yes.

20 For the record, my name is Al Pak. I
21 represent Semptra Global Enterprises. By way of
22 introduction, Semptra Global Enterprises is the
23 non-utility side of Semptra Energy. We have five
24 principal subsidiaries, a power plant
25 developer/operator, a retail energy service

1 provider, an LNG terminal developer/operator, and
2 an interstate pipeline developer/operator and a
3 trading and warehousing company. So we obviously
4 have a number of interests in the IEPR as it's
5 presently structured.

6 And we were very happy to see the
7 outline that was -- and the design that's included
8 in the notice. We sort of looked at the first
9 IEPR from 2003 as an opportunity to do a
10 comprehensive supply/demand balance. In the 2005
11 IEPR we looked at a number of vexing issues that
12 over the short term might prevent us from
13 improving the supply/demand balance, and in this
14 IEPR we see the Commission taking on issues that
15 are really important to the merchant participants
16 in the competitive energy markets in California,
17 and principally testing whether or not we are
18 keeping the promises that have been made in both
19 the Energy Action Plan and in the previous IEPRs.

20 In terms of the, the notice issue, which
21 we are particularly interested in and we wanted to
22 give you a suggestion as to the direction that
23 issue might take, the, the notice indicated that
24 the Commission was going to evaluate whether the
25 state was being successful or would be successful

1 in the future in delivering fuel diversity,
2 resource adequacy, system reliability and local
3 deliverability. We think that's a, that's a very
4 good topic for us to spend an awful lot of time
5 on.

6 I should note that there are a lot of
7 public objectives embodied by those concepts, and
8 we can characterize them as public goods. And
9 with respect to a large measure of those public
10 goods, we're delivering them through command -- a
11 command and control paradigm being controlled by
12 the Public Utilities Commission. I was going to
13 remark in, in response to Commissioner Geesman's
14 interest in streamlining the SEP process that
15 maybe rather than have two agencies being
16 involved, that there should only be one, but we
17 think you picked the wrong one. I was going to
18 say a lot more about that until I, I came out from
19 behind the television and saw Mr. St. Marie.

20 (Laughter.)

21 MR. PAK: But in our comments we'll give
22 you, we give you 11 reasons why the CPUC is the
23 wrong agency to be implementing programs and
24 monitoring the programs, and supervising the
25 programs related to the delivery of those public

1 goods. And I think, you know, the SEP evaluation
2 can be part of that.

3 I want to speak specifically about three
4 kinds of public goods, and maybe having this
5 Committee, and the Commission ultimately, in this
6 IEPR evaluate whether or not there is an
7 alternative paradigm that we could be using to
8 deliver some of these public goods, and I want to
9 speak about three in particular, reliability and
10 resource adequacy in the electric sector,
11 renewable energy delivery, and reductions in
12 greenhouse gas emissions, which is increasingly an
13 important issue for both this agency and the CPUC.

14 First, let me say that Sempra Energy, as
15 well as Sempra Global Enterprises, fully believes
16 that these are important issues and the state
17 is -- it is appropriate for the state to address
18 them. We do not dispute the ability of the state,
19 either as a matter of right or of law, to
20 implement programs addressing these issues. But
21 we do have a lot of concerns that the delivery
22 mechanisms that are being put into place,
23 particularly by the Public Utilities Commission,
24 are wrong-headed and won't get you to the goals.
25 And I think as you evaluate whether we are

1 fulfilling the objectives of the Energy Action
2 Plan, that a lot of the problems have to do with
3 the way that the programs are structured.

4 The principal problem is the PUC's
5 environment and their culture is all about
6 assessing, or imposing liabilities, obligations,
7 and assessing penalties, and we think that's the
8 wrong approach.

9 First of all, it promotes endless
10 litigation. There isn't a proceeding that the PUC
11 can bring to close as quickly as some of these
12 issues demand. And when you talk about the
13 delivery of public goods and you, you heard it, I
14 think, earlier this week at the Energy Action Plan
15 meeting, when you talk about whether or not we're
16 meeting the goals, you tend to hear a lot of
17 excuses. So and so did this, we did that.

18 I'll tell you from my experiences, we
19 try to, to meet some of the goals that have
20 been -- or the objectives that have been placed
21 in our responsibility, that the excuses we hear
22 from both us and our counter parties are all
23 legitimate. I can, and I'll give you an example
24 of how we're trying to meet resource adequacy.

25 Now, they're, the, the complaints that

1 you're going to hear are not, are not compatible,
2 and it's going to ultimately be up to you to
3 determine whether more command and control
4 regulation is appropriate, or whether some
5 alternative approach should be tried. Even worse,
6 we think that -- and this is obviously our bias at
7 Sempra Global -- we think the command control
8 regulations are becoming more and more
9 incompatible with competitive market structures.

10 We are focused on price, profits, market
11 share, running our businesses as efficiently as
12 possible, basically trying to carve out some kind
13 of a difference between us and our competitors in
14 the markets, and principally that would be the,
15 the regulated utilities. And as we meet, as we
16 try to meet those requirements, we're really taken
17 out of the game that we play with respect to
18 trying to build better products, meet cost
19 efficiency goals, get someplace earlier than our
20 competitors can get, and, and the example that,
21 that I wanted to share with you is resource
22 adequacy.

23 We, we have built our retail service
24 business around the concept of perfectly hedging a
25 customer's energy requirements in a forward

1 market, and we do that using financial
2 instruments. The CPUC and the California ISO have
3 imposed resource adequacy requirements on our
4 retail energy service provider that in part tries
5 to get us to transmute the physical -- the
6 financial and contractual obligations we use to
7 serve our customer loads into physical ones.

8 We have tried to do that. And we have
9 built a fairly large portfolio now of a pure
10 capacity obligation, no energy behind it, just to
11 meet these, these CPUC requirements. I buy only
12 what I need, certainly no more, and hopefully not
13 less. But as we negotiated those contracts,
14 because we were only doing this to meet a
15 regulatory requirement, we tried to build into our
16 contract warranties and indemnity provisions that
17 would make the seller obligated to find us a
18 replacement product if he failed to deliver and
19 indemnify us against any penalties that the CPUC
20 might, might impose on us if he failed to deliver.

21 Obviously, we thought that was a
22 legitimate requirement, since we were only -- we
23 weren't buying this for the benefit of our market
24 or our customers, but only to meet a regulatory
25 requirement imposed on our license. The sellers

1 responded as you would expect. We're not going to
2 indemnify you against penalties, and we may in
3 part provide you compensation for the replacement
4 capacity that you might need in the event of our
5 default.

6 Both sides have perfectly legitimate
7 business positions, and you're going to hear the
8 same thing when you go to your workshop on credit
9 requirements. I listened to purchasers, or
10 utilities who put out requests for proposals for
11 power that we want to respond to. And they, you
12 know, we hear a lot of talk about the impairment
13 of the credit quality of the utility balance sheet
14 that we, as a, as a seller under a purchase power
15 agreement impose upon them. From our perspective,
16 we think a lot of what they call credit quality
17 is, is derived from the regulatory mechanisms of
18 rate making and cost recovery.

19 So as we go back and forth, both sides
20 have legitimate positions, but it doesn't bring us
21 any closer to finding a mutually satisfying
22 contractual set of obligations. And so the
23 question that we would have you ask as you
24 evaluate whether or not we're, we're delivering
25 all of these public goods through command and

1 control regulations is whether this system of
2 private bilateral contracts is the appropriate
3 method by which we should be complying with all of
4 the important public goods objectives that are
5 being imposed on the market.

6 And specifically, we'd like to help you
7 come to some sense that an alternative mechanism
8 is, is needed, and in our comments we describe one
9 alternative paradigm, and that would be the use of
10 a central procurement model.

11 For some time, Sempra Global has been
12 proposing that the California ISO be the backstop
13 procurement agent for reliability oriented
14 capacity in the market. We have proposed that the
15 ISO hold an annual auction for forward capacity
16 obligations. And to a large extent, we expect
17 that there will be hedges, bilateral hedges
18 against that auction. And so a lot of what you'll
19 see in terms of ISO procurement is really marginal
20 and only backstop.

21 But we believe that that helps you get
22 to where you want to go better than relying on
23 independent parties under penalty of -- under
24 penalties and all kinds of enforcement mechanisms,
25 to get you to the ultimate objective.

1 We're proposing the same thing for
2 greenhouse gas emission reductions and renewables,
3 and I, I think TURN has been suggesting this, at
4 least in the renewables area, for at least the
5 non-utility load-serving entities. We believe
6 that it may, it should be expanded to the entire
7 market.

8 We hope that these kinds of models,
9 although we wouldn't use a state agency to do
10 this, we, we are proposing a private non-profit
11 organization, a consortium of, of -- based on
12 collaboration between market participants, we
13 think this model is familiar to you. This is
14 pretty much how you run your public interest
15 research and development program, central
16 procurement can ensure that the important R&D that
17 may be the market can't support, the state still
18 gets and has access to.

19 EPRI and GRI have done pretty much the
20 same thing on a, on the private side for a number
21 of years. New York recently empowered a state
22 agency to procure renewables as they try to meet
23 their renewable portfolio standard objectives.

24 In our comments that we're filing, as I
25 indicated earlier, we think there are 11 reasons

1 why you should do something other than what the
2 PUC is doing. But I can talk, I want to talk
3 about three in particular that are really
4 important, and I'll start with one that hopefully
5 the Energy Commission can at least appreciate.
6 And that is this will improve transparency.

7 If you strip out all of the competitive
8 advantages that come from being able to contract
9 in specific ways with respect to the delivery of
10 these public goods, we think there'll be a lot
11 less need for secrecy around those contracts
12 either with respect to their pricing and
13 procurement, or the manner in which they were
14 evaluated. There isn't enough transparency with
15 respect to the procurement of renewable energy.

16 I've heard Commissioner Geesman indicate
17 that the whole NPR process is baffling to this
18 Commission. It is baffling to us, as well, and
19 it, it would help to sunshine a lot of this.
20 Taking vested competitive interests out of the
21 arena of delivery of public goods we think can do
22 that.

23 Secondly, there'll be a lot less
24 litigation. As we try to structure these
25 programs, and we just started the process in the

1 greenhouse gas area on Wednesday at the PUC, we
2 tend to focus on liabilities, obligations,
3 penalties, enforcements. That gives everybody a
4 vested interest in defending themselves.

5 It has struck me that as we looked at
6 these programs within Semptra Global, we have spent
7 all kinds of time on our litigation positions. We
8 have not yet begun the work of developing our
9 strategies, our -- how we comply, what are the
10 best projects, initiatives that we can get in
11 order to meet these obligations either
12 individually as a company, or collectively as an
13 industry. And it, it's just odd that if these
14 goals are important we spend all our time about
15 our litigation positions and very little on the
16 end result and how we get there.

17 So we think that, that turning to a
18 collaborative model will allow us to immediately
19 focus on projects, initiatives, achieving the
20 goals rather than figuring out who is relatively
21 better off or worse off under specific designs and
22 criteria that might be adopted after months and
23 months of litigation in a room full of what --
24 hovering lawyers, I think you called them.

25 Third, and this is the one that's

1 prompted Semptra Global to raise these issues with
2 the PUC, who had, who decided that this was not a
3 right time to consider the issue because it didn't
4 fit their litigation schedule, of all, of all
5 reasons, we think that, that using some
6 alternative model than command and control will
7 preserve competition, and a focused competition on
8 prices and products and service quality, and
9 that's where the focus of competitive markets
10 ought to be. It shouldn't be on how well we
11 deliver public goods. We don't think we should be
12 judged on that. There are a number of reasons for
13 that, and we articulate them in our comments.

14 So with that, if we could get you to
15 look at whether or not we are meeting the goals of
16 all the programs that are being layered onto our
17 industries, and whether maybe something else, a
18 different regulatory paradigm can get us there
19 faster, cheaper, better, more transparently, we
20 hope you take the opportunity to do that in this
21 IEPR.

22 Be happy to answer any questions.

23 COMMISSIONER GEESMAN: Al, I'm going to
24 read through your, your written comments quite
25 carefully before, before raising any substantive

1 questions. I will say that the comment and
2 testimony that your company provided both in '03
3 and '05 have been of great importance to us. I
4 think you've brought the LNG question into
5 perspective for us in 2003, and it was in no small
6 part a result of some of the contribution that you
7 made that helped us with our consideration of coal
8 issues last year.

9 I think that we ought to provide a
10 pretty detailed scrutiny of your proposal in the
11 '06 RPS re-evaluation that we're going to do. I
12 think it sounds quite interesting, and would
13 certainly invite you to provide us with additional
14 information, and to the extent that TURN has made
15 a somewhat similar proposal for the non-utility
16 RPS procurement, we ought to give their proposal
17 comparable consideration. I, I think it sounds
18 very interesting.

19 MR. PAK: Thank you, Commissioner. And
20 I should say that the, the exchange of ideas is
21 two-way. Obviously, you had an influence on which
22 projects we were and were not pursuing.

23 (Laughter.)

24 VICE CHAIR PFANNENSTIEL: Al, I will
25 also read the, the written comments and we'll

1 probably have further discussion. But I, I just
2 want to make sure I understand. The central point
3 of what you're talking about for the delivery of
4 these public goods is what you have referred to a
5 couple of times as the centralized collaborative
6 model. And so I take that -- and, and your, your
7 reference point for procurement is the ISO,
8 Having, having that for the backstop procurement.

9 MR. PAK: For reliability capacity, yes.
10 For others that we use some other agent.

11 VICE CHAIR PFANNENSTIEL: And, but for
12 the RPS, I'm, I'm not quite sure what you, you are
13 referencing. You said some independent third
14 party not yet existing. Is that -- I'm trying to
15 get my, my --

16 MR. PAK: That's right.

17 VICE CHAIR PFANNENSTIEL: -- mind around
18 what kind of model you had.

19 MR. PAK: That's right. And it, you
20 know, it doesn't necessarily have to be the same
21 one that would be procuring reductions in
22 greenhouse gas emissions, for example, offsets.
23 But the programs are related. We understand there
24 is a difference between all of the values
25 renewables bring and greenhouse gas emission

1 reductions, but there is some overlap. So to some
2 extent, it may serve our purposes to have a single
3 third party, but we suspect that there may be room
4 for two here, as long as they coordinate.

5 VICE CHAIR PFANNENSTIEL: And this is
6 elaborated on more in your written comments, and
7 so we can --

8 MR. PAK: Yes.

9 VICE CHAIR PFANNENSTIEL: -- read it.
10 Thank you very much.

11 MR. PAK: Thank you.

12 VICE CHAIR PFANNENSTIEL: Further
13 questions?

14 The next speaker, John Van Bogart.

15 MR. VAN BOGART: Good morning, everyone.
16 Thank you for this opportunity again. I wanted to
17 take this opportunity to thank the Commission as
18 well as the Air Resources Board and California
19 Department of Food and Agriculture, as well as the
20 Governor's office, to push forward renewable fuels
21 technology as well as alternative fuels as we move
22 forward.

23 My name is John Van Bogart, I'm with
24 Clean Fuel USA. We're based out of Georgetown,
25 Texas. We are manufacturers of purpose built

1 alternative fuel and bio-fuel dispensers, as well
2 as vehicle fuel systems. The dispensers that we
3 make and also up-fit, we're the only authorized
4 up-fitter for alternative fuels for Dresser Wayne
5 and Gil Barco, which represent about 93 percent of
6 the retail marketplace.

7 The president of our company, Curtis
8 Donaldson, is the chairman of the NEVC, the
9 National Ethanol Vehicle Coalition, and we sit on
10 many of the clean cities coalitions throughout the
11 country.

12 Today I wanted to give a brief update on
13 the progress that's been made here in California
14 for the deployment of E85 fuel in the retail
15 marketplace. There has been some market hurdles
16 in the past due to vapor recovery issues. We have
17 been working with the Air Resources Board and we
18 feel that these market hurdles are very close to
19 being cleared, and sometime this summer we will
20 get a go-ahead to deploy refueling infrastructure
21 for E85. In collaboration with Dresser Wayne and
22 Gil Barco, we have received INTEP and weights and
23 measures approvals and are very close, in the last
24 final stages of UL approvals for product safety.

25 We think these are important standards

1 to have, especially in a state the size of
2 California. Some other states around the country
3 have moved forward without some of these
4 approvals, and good for them for being pioneers,
5 but I think we know a lot more now than we did
6 then, and I think some of these product safety
7 standards should be enforced here in California.

8 As you know, there's more than five
9 million E85 vehicles in the country. Here in
10 California we have over 300,000 vehicles that can
11 run on E85. Ethanol production currently at about
12 five billion gallons, slated to go to about 7.5
13 billion gallons sometime in 2008, 2009, which will
14 put us several years ahead of schedule on the
15 renewable fuels standard, which is very good news.

16 On the propane front, as promised, the
17 industry has received approvals for several new
18 vehicle platforms including the new school bus,
19 also the medium duty platform and the new Rausch
20 F154 pickup truck. These two fuels are a little
21 bit different. The, on the propane side, we
22 consider this to really be a fleet fuel and a good
23 fuel for fleets to use because of the economic
24 benefits and the cost savings to the fleets.

25 On the E85 side, this we perceive as a

1 consumer fuel, for lack of a better term, a soccer
2 mom fuel. Most of the vehicles can be made, as
3 you know, to run on E85.

4 Some of the costs of the infrastructure
5 for E85 I thought I'd briefly address. To up-fit
6 an existing station with an existing tank and
7 existing dispenser to put out a UL certified and
8 INTEP approved kit, these costs run somewhere
9 between 16 and \$20,000, and that would include
10 evacuating the tank, cleaning the tank, replacing
11 the equipment in the tank, submersible pump, the
12 float gage, some things of that nature. A brand-
13 new dispenser by itself, from Wayne Dresser or Gil
14 Barco, they're going to be about \$15,000,
15 somewhere in that nature.

16 So we believe these infrastructure costs
17 are quite a bit less than most of the alternative
18 fuel infrastructure options that are out there,
19 and therefore we feel that it is a very good
20 option for the state to move forward on.

21 That's about all I had. I think we have
22 some choices as not only a country, but a state.
23 We can continue to buy our fuel from the Mideast
24 or go to the Midwest and buy fuel, and I don't
25 think the President has ever deployed the Marine

1 Corps to defend a cornfield in Iowa, or maybe a
2 bio-mass facility here in California. There are
3 no silver bullets, as my good friend John Boesel
4 says. All of the strategies I think should be
5 pursued, and I want to congratulate the Commission
6 for staying with that tack.

7 Thank you very much.

8 VICE CHAIR PFANNENSTIEL: All right.

9 Thank you. Are there questions?

10 Les Guliasi, PG&E.

11 MR. GULIASI: Good morning. Les
12 Guliasi, with Pacific Gas and Electric Company.

13 I just want to make a few brief remarks
14 this morning addressing on balance probably more
15 process than substance. But with respect to
16 substance, I think the four main issues that
17 you've identified are really the front burner
18 issues that we need to address in the '06 update,
19 as well as moving forward into the 2007 IEPR.

20 As this process unfolds, I'm sure that
21 we'll have a chance to hone in more specifically
22 on the topics with the workshops, with the staff
23 papers, and so forth. But most of the topics that
24 we're going to address this year are not new
25 topics. We've already heard people express

1 concerns about the RPS. We've heard about the
2 critical, critical peak pricing component of the
3 load management section. And again, they're not,
4 they're not new issues. We've spent a lot of time
5 and effort over many years addressing these
6 topics.

7 And I don't want us to spend a lot of
8 time re-hashing the same issues, churning up the
9 same old ground. But I think that the Energy
10 Commission, and especially in the staff reports,
11 can really move us forward if you focus on trying
12 to get everybody on the same page. You've, you've
13 generally done a very good job in the past in
14 identifying issues, bringing us to date
15 historically on those issues. But if we're going
16 to move forward at all, we really have to start
17 from the same, from the same platform, from the
18 same page. And that, I think, is an important
19 task for the staff in producing the workshops.

20 And I guess another comment that I'd
21 make about that is I hope that we can all come to
22 these issues with a fresh perspective and, and
23 keep an open mind. As we've talked about these
24 topics both here as well as in other forums, we
25 keep hearing the same criticisms articulated by

1 the same parties. It's very repetitious. We know
2 where everybody stands, by and large. And if
3 we're going to find solutions to the problems we
4 have to keep an open mind, look at things with a
5 fresh eye, and commit to being -- to working in a
6 collaborative fashion to advance, you know, the
7 state of the art on these issues.

8 With respect to data collection, I don't
9 think I need to say much. I'm aware of the
10 separate and parallel process that you have to
11 address the data issues. I think there's a lot of
12 work that we have ahead of us still. I'm mindful
13 of the questions posed by the notice for the
14 second workshop to be held on, on May 25th. I
15 think those are some of the right questions that
16 need to be asked and answered so we can solve some
17 of the data questions with respect to scope.

18 I, I recall, I think it was in November
19 of 2004, when we had the scoping workshop leading
20 to the 2005 IEPR proceeding, and there was a
21 proposal put on the table, I think it was by
22 Edison, to begin the collaborative process to
23 address data requirements, and especially the
24 issues surrounding confidentiality. We spent a
25 lot of time last year on the, on the

1 confidentiality issue, probably more time than we
2 deserved to spend, and I think some of the time
3 might have been better spent on substantive issues
4 rather than on fighting over confidentiality.

5 I believe that the, the issues have been
6 narrowed sufficiently about confidentiality, yet
7 they're not fully resolved. I'm hoping that
8 through the parallel data collection process we
9 can finally resolve the data confidentiality issue
10 and agree about what data are confidential. And I
11 want to emphasize again something I've said many
12 times before. From the utilities' perspective,
13 and certainly from PG&E's perspective, this is not
14 an issue about providing data to the Commission.
15 This is really about protecting some limited
16 amount of data from public exposure, public
17 disclosure.

18 I also want to encourage you to continue
19 to work closely with the PUC. I'm mindful and
20 respectful of the fact that you have separate
21 responsibilities, you have separate perspectives
22 on some of these issues, both the substantive
23 issues as well as the data confidentiality issues.
24 But we, we feel caught sometimes between two
25 agencies that have separate rules and separate

1 requirements. To the extent that you can work
2 together with your sister agency and come to terms
3 with some of these confidentiality issues, it will
4 I think improve the process.

5 I'm glad to see that Mr. St. Marie is
6 here representing the PUC, and I'm sure he'll hear
7 these remarks. And to the extent that you can
8 continue the kind of collaboration with the PUC,
9 it would be very helpful.

10 The final remark I wanted to make is
11 about resources. Both the data collection
12 process, as well as the update and the 2007 IEPR
13 process are ambitious, and they promise to be very
14 intensive efforts. Commissioner Geesman, you said
15 earlier that the state government does not have
16 infinite resources. I think the way you put it
17 was that the resources are not -- are, are
18 somewhat finite. And I just want to remind you
19 that the resources of various parties, including
20 the utilities, are not, are not infinite.

21 It's been very helpful that the two
22 agencies, the PUC and the CEC, and I guess I
23 should also add to that the ISO, have worked in a
24 collaborative fashion over the past several years.
25 But we need to continue that collaboration, and we

1 need your leadership to ensure that we don't
2 duplicate effort. I talked before about the
3 importance of not duplicating effort.

4 I've also talked to you about the
5 importance of trying to sequence your activities
6 and your, your proceedings so that they make
7 sense, so that they dovetail with each other and
8 are compatible. To the extent that you can
9 continue that kind of collaboration and even take
10 some active leadership and talk to your fellow
11 Commissioners at the PUC to coordinate issues, to
12 coordinate proceedings, to sequence the
13 proceedings, to time the decisions in a manner
14 that makes sense for all of us, that would be very
15 helpful.

16 And that concludes our remarks. Thank
17 you very much.

18 COMMISSIONER GEESMAN: You know, Les, I
19 agree with everything you just said. I'm not
20 certain that whoever files some of your legal
21 briefs at the PUC in the procurement proceeding
22 has heard that speech, and I would invite you to
23 share your thoughts with them, because I think
24 Commissioner Peavey certainly has attempted to
25 structure that process to dovetail with the 2005

1 IEPR process as best humans could make it
2 dovetail. And I think that it was done in the
3 spirit that you just mentioned, and I would hope
4 that spirit pervades your company a little more
5 than at least some of the legal filings would
6 suggest it has.

7 But let me give you the same heads up
8 that, that I gave Gary, as it relates to the '07
9 process. And that is NRDC and Union of Concerned
10 Scientists did register concern with our limited
11 approach to integrated resource planning in the
12 '05 cycle. We took note of that in the '05 report
13 and, and promised to do quite a bit more in '07,
14 and I envision that involving us with your various
15 procurement methodologies, the least cost/best fit
16 methodology, and your value at risk methodologies.

17 I suspect that that will address some of
18 the areas where we may not yet agree on
19 confidentiality, but I, I suggest that you should
20 have people within the company starting to think
21 how we can best approach that. Because I, I
22 certainly don't pre-judge what the appropriate
23 confidentiality treatment for that matter should
24 be. I think that'll come up later.

25 MR. GULIASI: Okay. Thank you.

1 VICE CHAIR PFANNENSTIEL: Les, two
2 observations on, specifically on the '06 update
3 subjects. I, the way you were describing them in
4 terms of PG&E's perhaps view of them, I, I would
5 encourage you to broaden how you're thinking about
6 the RPS issues. I mean, they're really clearly
7 broader than SEPs and they're broader than, you
8 know, one of the, any one of the individual
9 aspects of the RPS problem. We're really looking
10 for solutions, and we're looking for implementable
11 solutions.

12 Same with load management. The load
13 management question isn't just critical peak
14 pricing. That is, if anything, you know, a, one
15 of the, the kind of fixable aspects of the whole
16 thing. Rather, it's the, the broad question of
17 load management standards and why they exist in
18 law and whether we're achieving the goals that
19 we've set out, and that is between the two
20 Commissions. That is something that, that works,
21 I believe, quite well between the two Commissions,
22 but we need to make sure that we are moving in the
23 right direction. And PG&E has been way ahead in
24 terms of the, the equipment side of that and going
25 ahead and installing the advanced metering, which

1 will be part of the solution.

2 So I believe we're going to be looking
3 to PG&E to help work with us on load management.
4 I, I think that PG&E has not shown the resistance
5 that we've seen elsewhere, so we really want to
6 find out how can we expand load management to
7 achieve the, the goals that have already been put
8 in place.

9 MR. GULIASI: I agree with you entirely,
10 Commissioner Pfannenstiel. And I think the, the
11 intent of my comment about the value of the staff
12 reports really addresses this issue. To the
13 extent that the staff can kind of fully scope out
14 all, all of these issues and provide some
15 historical perspective on things, and make some
16 recommendations about moving forward so that we
17 can all get our arms around these issues, and all
18 start from the same place, then I think we can,
19 you know, start moving forward.

20 But unless we, you know, if we do this
21 in a fractured way or in a way that doesn't give
22 the complete story, we're going to continue to
23 debate issues that we've been debating, and not
24 move forward at all.

25 So I'm, I think I'm entirely with you,

1 and I'm hoping that the staff can really provide a
2 vehicle for us to move forward.

3 VICE CHAIR PFANNENSTIEL: Great. Thank
4 you.

5 MR. GULIASI: Thank you very much.

6 VICE CHAIR PFANNENSTIEL: Jim Cassie.

7 MR. CASSIE: Thank you, Commissioners.
8 My name is Jim Cassie, representing San Diego Gas
9 and Electric.

10 I have to tell you the last time I was
11 here was 30 years ago, so this is pretty exciting
12 for me to be here. You guys were on, you guys
13 were on Howe Avenue. We called you the ERCDC, and
14 some would question whether development was part
15 of the title. But we were just a small utility
16 trying to build a modest nuclear plant in Blythe,
17 so a lot has --

18 (Laughter.)

19 MR. CASSIE: -- a lot has changed since
20 that time.

21 We will be filing something in writing
22 so there will be more to this. And I, I don't
23 want to take up your time copying what Gary said,
24 because I did take a lot of notes when he talked.
25 And, and Les.

1 But again, the company looks forward to
2 working on this process, and the coordination that
3 everybody has talked about between the two
4 Commissions is, is paramount. I mean, I remember
5 a time when two Commissioners from the Commissions
6 wouldn't even say hello on the street, so, I mean,
7 you guys have come a long way in this process.

8 As far as the -- and I don't want to be
9 admonished, Commissioner Geesman, like Les and
10 Gary, but as far as looking at the supply issue,
11 we'd encourage you to look at it in the aggregate.
12 In the old days you did the forecast, we did the
13 resource planning and supply. Our position is
14 still consistent since 1978, so that's good to
15 hear.

16 The one thing I do want to bring up is
17 the RPS. It, it appears, and I think you
18 mentioned a reassessment of that as part of this
19 process, and maybe that is the opportunity, as
20 CMUA pointed out, to use a workshop process to
21 really hash out some of the issues. And I'll tell
22 you, we are right on board with Mike Florio of
23 TURN on this rate reduction thing. The last time
24 we had a significant reduction in rates was when
25 we finished the power line to Phoenix, and we were

1 able to take advantage of some significant excess
2 capacity in that area.

3 As you know, we filed an application to
4 build a new line coming out of the Imperial
5 Valley, and again, you know, the renewables are,
6 are cost effective. They will be a positive
7 effect, have a positive effect on our rates. The
8 issue, though, I think that's lacking in this
9 process is transmission, at least for us. That's
10 the biggest deterrent for us to getting renewables
11 into San Diego County. So I would encourage you
12 to add that one.

13 And with that, you'll be seeing our
14 written comments. It's good to be back.

15 VICE CHAIR PFANNENSTIEL: Thank you.

16 Barry Flynn. No?

17 SPEAKER: He's on the phone.

18 VICE CHAIR PFANNENSTIEL: Oh, sorry.

19 Hello, is Barry Flynn there? No.

20 Well, we have one other person on the
21 phone, and maybe we can bring him in and then
22 bring in Mr. Flynn. We have Gregory Platt, or
23 Klatt, I guess it is.

24 MS. WHITE: Gregory, can you ask your
25 questions now, make your comments? Okay.

1 VICE CHAIR PFANNENSTIEL: Are, are
2 either of the people who have said they wanted to
3 make comments available?

4 If not, is there anybody else here who
5 hasn't yet offered comments who would like to do
6 so?

7 Well, hearing none, I want to thank
8 everybody for the attendance and participation.
9 Commissioner Geesman and I are going away with a
10 lot of good information, new contacts, new
11 thoughts. Written comments that have been
12 provided here will be digested and, and used in
13 subsequent versions.

14 So this is the beginning of, of a long
15 process. It's got another 18 months to go. So
16 thank you for being with us this morning.

17 (Thereupon, the California Energy
18 Commission Committee Hearing on
19 the 2007 Integrated Energy Policy
20 Report was concluded at 11:45 a.m.)

CERTIFICATE OF REPORTER

I, PETER PETTY, an Electronic Reporter,
do hereby certify that I am a disinterested person
herein; that I recorded the foregoing California
Energy Commission Committee Workshop; that
thereafter the recording was transcribed.

I further certify that I am not of
counsel or attorney for any of the parties to said
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IN WITNESS WHEREOF, I have hereunto set
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